

Made in Britain

by B. A. YOUNG

This is actually the Oxford Playhouse's second shot at a documentary about the Cowley car works, the first having been shelved. Its authors, Steve and Paul Thompson, have done a similar job about the Ford Motor Company, which they didn't leave enough time to do a second bite.

Made in Britain is a little more to say about the car than what has been going on at Cowley between 1966 and the present day.

We have the usual sequence of scenes on the shop-floor and at managerial, directorial and Government level, shop-floor always being right and managerial always being heartless. The stage is cleared, scenery, locations being summed up by projections upon screens lowered from the flies. The addition of the necessary picture.

never felt any deeper involvement in the sad history of a factory than I have been through reading the newspapers. I feel the impression I got was

simply of newspaper stories being acted out, though usually with the political emphasis reversed. There is what might be described as an unhappy ending, worker participation, rationalisation and measured day work resulting. It seems only in divided loyalties, redundancies and reduced earnings, even if they also result in increased profits, or rather reduced losses.

Frankly, I don't see the point of this kind of exercise unless it either has dramatic validity (which Made in Britain certainly hasn't) or presents some important insight. Documentary theatre is only in its infancy yet. What it needs is more emphasis on theatre and less reliance on old newspaper cuttings.

There are some pretty character-sketches by Harry Landis, Carrie Lee-Baker, David Lincoln, Shay Gorman, Helen Brammer, Don McKillop and a dozen more, and the usual tedious scenes without which it seems no agitprop production is complete.

Hugh Petter

by PAUL GRIFFITHS

ann recitals are usually remarkable more for one or two particular performances than for well-planned, illuminating programme, but Hugh Petter's Friday evening recital was an excellent reading, notably of the first two Preludes Op. 67, the recital's chief merit was scheme, its symmetries and trasts, its drawing of unexpected parallels. The first half, instance, began with two of Liszt's Vingt regards, and ended with Beethoven's Op. 90; and Petter played Messiaen pieces in so purposeful a way as to make them

particularly, showed Petter's ability in full-blooded bravura, but it was an ability somewhat under threat, a virtuosity not quite at ease with itself.

At times the technical demands seemed to demand full attention to phrasing, though he displayed that same want of cantabile in the Beethoven sonata. Elsewhere the total integration of parts was a bit askew. This had been the case most obviously in the second Messiaen piece where the upper treble supplied some strange and definite harmonies instead of the sparkling but distant resonances intended.

Petter was at his best in hushed chord sequences, clean contrapuntal playing and music of keen rhythmic wit, as he showed in the Five Studies by Colin Matthews which balanced the six of Chopin in the second part of the recital. Matthews' pieces, here receiving their first complete performance, explore various compositional gambits as much as they test diverse pianistic skills. Indeed, it is surprising that the same composer should have produced within two years an utterly simple chain of chord progressions, a spirited toccata, an essay in rippling slow and still harmony, a display of quick rhythmic exchanges and a gentle offshoot from Steve Reich.

What stamps the set as by the composer of last month's Fourth Sonata for orchestra, however, is the sure harmonic sense unimpaired by tonality, as well as a certain delight in subtle schemes. Written for Petter, they are pieces to provide him with a well-deserved testimonial.

The Entertainment Guide is on Page 33

sound like a two-movement suite, following Beethoven, nif at some considerable distance. At first it had seemed to me that he was starting off the long, slow downing rap of "Le baiser de l'Enfant" but the heteroskeletal dance and variety of sound de l'Esprit de joie led the two pieces into a careful display of structural emotional resolution not un-Bethovenian in pairing. How more sonatas, I wonder, lie in within Messiaen's score movements?

Between the Messiah and the haven came the Scriabin Preludes and the B-flat minor Op. 8 No. 11. Here there is a link with the central part of the second half, where study in the same key as the unknown was teamed with Petter's Spanish. All of this occurred as the piano

BBC successes in Royal Television Society awards

the Royal Television Society announces the following programme awards for 1976:

International Programme award: *Between Two Rivers* (BBC, dir. Ron Dowling).

National Programme award: *On Shore* (BBC further education, David Hargreaves).

Special award: *Frederic Raphael* (BBC).

Glittering Prize (BBC): *Performance award: Tom Catti* (BBC).

Design award: *David Myerscough-Jones* (BBC).

Technical award: *David Mutton* (BBC).

award for outstanding achievement in front of camera: *John Cleese* for *Towers* (BBC).

Outstanding achievement behind the camera: *John Wille* for *Johnny come (Yorkshire TV)*.

The Geoffrey Parr Award, television engineering or related science: *Stan Edwards* (BBC).

Head of Carriage Systems: *Keith Jones* (BBC).

RMV: *Thorn Consumer* (BBC).

George Mackenzie: *of Automation and Control* in the Experimental and Development Department, IBA.

John Logie Baird Travel

Brass music at the Royal Academy

The National Art-Collection Fund will hold a concert at the Royal Academy on Tuesday, June 1, at 6.30 p.m. The Philip Jones Brass Ensemble will play a programme including music by the Gabriellis, Pachelbel, Schütz. Members will be able to walk around the galleries where the Summer Exhibition will still be showing. The bar and restaurant of the Royal Academy will both be open.

Tickets (£2 for a seat, 75p for a promenade ticket) are available from: C. A. Sebag-Montefiore, 11, Gledhow Gardens, London, S.W.8.

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Elizabeth Harwood, Geraint Evans and Catherine Malfitano

Figaro

by MAX LOPPERT

The latest revival of *Le nozze di Figaro* at Covent Garden casting. For Geraint Evans' Figaro, sprightly and fierce as always with perhaps a new note of mellowness, there were two debutant adversaries, the German Hans Helm as a tall, distinguished Count with impeccable bearing, piercing blue eyes and restless long fingers, fusing the attractive and dishevelled qualities of the past with rare overtones. He was apt to phrase his keenly focused baritone as a trumpet rather than a cello, the final plea to the Countess being not nearly smooth enough; but the ring of health is unmistakable. And an adorable Cherubino, who had only to present himself to be loved, in the Greek mezzo Agnes Baltsa, puppyish of figure with wide spangled eyes, deliciously playful with the music yet capable of wonderful closeness of intent in the last act between pit and stage, a lithe and passionate accompaniment to some very serious happenings on stage. Mr. Copley is particularly good at holding at precisely the right balanced point all the deeper feelings expressed and misunderstood in the garden; Mr. Davis likewise, untroubled of the suddenly heart-felt broadening of tempo kept within an allegro trace bustle. Newcomers abound in the cast, to happy effect, by no means

always true of Covent Garden casting. For Geraint Evans' Figaro, sprightly and fierce as always with perhaps a new note of mellowness, there were two debutant adversaries, the German Hans Helm as a tall, distinguished Count with impeccable bearing, piercing blue eyes and restless long fingers, fusing the attractive and dishevelled qualities of the past with rare overtones. He was apt to phrase his keenly focused baritone as a trumpet rather than a cello, the final plea to the Countess being not nearly smooth enough; but the ring of health is unmistakable. And an adorable Cherubino, who had only to present himself to be loved, in the Greek mezzo Agnes Baltsa, puppyish of figure with wide spangled eyes, deliciously playful with the music yet capable of wonderful closeness of intent in the last act between pit and stage, a lithe and passionate accompaniment to some very serious happenings on stage. Mr. Copley is particularly good at holding at precisely the right balanced point all the deeper feelings expressed and misunderstood in the garden; Mr. Davis likewise, untroubled of the suddenly heart-felt broadening of tempo kept within an allegro trace bustle. Newcomers abound in the cast, to happy effect, by no means

St. Matthew Passion

by RONALD CRICHTON

The English Bach Festival, before removing to Oxford, wound up the London programmes with two major concerts designed, in the EBF manner, to display present-day Bach styles in Northern Europe. For the *St. Matthew Passion* on Friday, West Germany sent the South German Madrigal Choir and the Ludwigsburg Festival Orchestra with their energetic conductor, Wolfgang Günterwein. All these, and the Evangelist and Christus, were heard earlier in the week in the Brighton Festival's *Magic Flute*. The choir is a versatile and tireless body, capable of both light and solid attack, fresh enough at the end of a long evening (as indeed was the whole ensemble) to give a surging account of the final chorale. It was actually heard to better effect in London, than in Brighton, where half the sound, one now realises, disappeared into the theatre flies.

The Bach performance was practical compromise: small forces and mostly modern instruments. Balance between choir and orchestra was good. In the arias one began to want the relief and contrast of a divided orchestra. In part 1, the continuo was sometimes base-heavy, with prominent bassoon, as if the players were afraid they were too few for the hall. Kurt Widmer's inward, gentle Christus was in sharp contrast to the Evangelist of Adalbert Kraus, direct, even forceful, wholly without the sacred aura which most English tenors still apply to the music, always compelling. Among those concerned

in the arias, there must be mention of the excellent young Scottish soprano, Margaret Marshall, of the strong, dependable alto Ortrud Wenkel, of the violinist, Werner Keltch and the gambist Adam Skeaping.

The Festival Hall was only half full on the previous evening (the mainly West German) Collegium Aureum, known for their recordings, had filled the Elizabeth Hall. No conductor (the leader, Franz Josef Maier, gives the beat when necessary), original or reproduction wing instruments, strings with "light baroque bows". The B minor Suite was done with one player to a part—the soft flute of Bartold Kuijken carried without difficulty largely because the rhythm was so clear and agile. The full strings and oboes were ravishing in the opening aria (Bach in his most mooping, safely-grazing mood) of the Wedding Cantata No. 202. The singer was Ely Arming, in resplendent voice, at once simple and eager.

In the Fourth and Fifth Brandenburgs, after the interval the smooth ensemble, admirable in itself, was paid for by a certain loss of spontaneity. Bob van Asperen delivered the high harpsichord cadenza in No. 5 with formidable exactness, yet it was dull. Mr. Kuijken's flute did not, this time, so surely dominate a larger body of strings. In No. 4, he and his fellow recorder player,

David Munrow

David Munrow, whose death at the age of 33 was announced on Saturday, was an outstanding figure of the "early music" revival in this country during recent years. As director of the Early Music Consort, which he founded in 1967, he brought medieval and renaissance music to a wider audience than ever before through concerts, international tours, and recordings. He became well known to children (and to many of their parents) as the regular presenter of Radio 3's long-running series, *Pied Piper*, in which his enthusiasm, knowledge and range of interests found an ideal format. He had just completed a major book and recording on the instruments of the Middle Ages and Renaissance.

Gala for guide dog fund

There will be a gala evening at the Arts Theatre to-day, Monday, to celebrate the achievement of members of the Unicorn Theatre for Young People in saving silver paper and stamps towards buying and training a guide dog for the blind. Artists appearing will include members of the Royal Ballet and singers from the London Opera Centre. There will be extracts from *Joseph and his Amazing Technicolor Dreamcoat* and *Venus and Superlaid*. Tickets are £2.50.

Geisterbahn

by B. A. YOUNG

Franz Xaver Kroetz as Ronald Sepp in his bedstater; but he dies of cancer and the threat to his plays in scenes rather than in acts. Dr. Holloway might have added that he writes acts rather than plays, for *Geisterbahn* is no more than the remaining two-thirds of *Stillerhof*, which we saw at the Bush a couple of years ago.

At the end of *Stillerhof* the backward crippled girl Beppi had just begun her birth pains, having been seduced by Sepp, the hired hand at her parents' farm. She now has a six-month-old baby and lives with it in her parents' house still, its father having been turned away. The parents want the child sent to home, but Beppi insists that "if Georg is put in a home I'll kill myself."

After trying to brain her mother with a piece of wood she is allowed to go and live with

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Elton John

by ANTONY THORNCROFT

Elton John, last year the world's most successful recording artist, has abandoned the role of singer and become an entertainer. And judging by his exhibition last week at the Earl's Court, it is an improving move. Elton John has always been just a well, a whipsy bit flash, but now he knows no restraints.

From the sheepskin rug on the piano to his own Ruritanian bandman's outfit, set off with a giant golden phallus swinging from his neck, Elton John was the eccentric showman, defying the audience to lose interest. He set out on a campaigning tour of the stage and surrounds while his hand honked out the numerous piano stools; stomped same riff to eternity.

As a musician, Elton John seems to have written out his talent a few years ago now, and his place at the very top of the show business tree can only be justified by his antics, his friendly rapport with an audience, and the vivacity of his early songs.

He wisely closed with resounding echoes from the past, like "Saturday Night" (Alvin for Fighting), and managed to make the two and more hours spent in his thrall seem like time fairly well spent. But what future generations will make of this strange strutting, spectacle-bound chairman of Watford Football Club I shudder to think.

Julian Bream

It's less than 25 years since Thurston Dart, introducing a concert of music for lute, had to explain that "lute music is off-and-on, it is occasionally over-the-top, it is occasionally under-the-top, it is occasionally in-between, and only a handful of lute players are few and far between, and only a handful of lute pieces are available in modern editions." That the situation is so different now is due in large measure to Julian Bream, among the early pioneers of the lute revival has had the greatest success in making the instrument understood and enjoyed by a wide public.

It's his own enjoyment of his playing which is so infectious (carefully instrumented by Thomas Morley in his *First Book of Consort Lessons*) on a mixture of old and new instruments, but now the combination of a richly-played violin, boom of his debut there. What a relief, between the bricks-and-mortar anniversaries of the Festival Hall (just concluded) and the Wigmore Hall (about to begin), to be able to celebrate broken as in pieces.

With the human voice there are fewer such problems, and even if he's playing music he Robert Tear, adjusting with ease to the small scale of Morley and Campian, contributed two supremely well-controlled groups of songs. His use of the words to mould the melodic lines of Morley's "Come, Sorrow" and Campian's "The Cypress Curtain" was exemplary, and Bream's accompaniments, too, were models of sensitive restraint. In his lute solos, Bream showed once again that range of colour which makes his instrument sound as varied as a grand organ (complete with great, swell, cor humana and pedal reeds) by comparison with the even-toned chamber organ playing of other lutenists. He defined the strands in the Dowland Fantasia (from *A Variety of Lute Lessons*) as he had in the Morley accompaniments, with varied timbres, and so made the piece approachable, by the listener. This is Bream's achievement—to have made lute music approachable, and with any luck he will still be widening its appeal in another 25 years' time.

NICHOLAS KENYON



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HOME NEWS

Highland
airfields
may go
to BAABy Michael Donne,
Aerospace Correspondent

THE BRITISH Airports Authority may take over from the Civil Aviation Authority the eight Highland and Islands airfields in Scotland—Benbecula, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick.

The two authorities are discussing the matter in response to a request from Mr. Edmund Dell, Secretary of State for Transport. They will report to Mr. Dell, who will take the decision. The eight airfields have been run by the CAA since its formation, as a "social service" operation. All run at a loss, cumulatively amounting to just over £2.1m. in 1974-75.

Oilfield traffic

Some of the airports are tiny, little more than grass strips with small buildings, in some cases lacking navigation and other aids found at big airports, although Sumburgh has recently benefited from a £2m. improvement programme to equip it for the rising traffic from North Sea oil and gas developments.

A study by the CAA in 1974 showed that the airports made an important contribution to the social and economic well-being of the area.

It wanted the airports separated from its other activities into an organisation of their own, preferably a wholly-owned subsidiary company registered in Scotland with close links with the Scottish Office, allowing a greater degree of local involvement.

British Airports Authority is obliged by the Government to operate at a profit, and if required to take over the Highland and Islands airports will probably want some support from the Government, while it studies possibilities of making them pay.

Parliament
this week

COMMONS

TODAY: Finance Bill, committee.

TOMORROW: Debate on sale of council and New Town houses.

In tenants: Opposed private business.

WEDNESDAY: Debates on nationalisation, and on procedures for handling EEC documents.

THURSDAY: Police Bill, committee; debate on Family Income Supplements (Compensation) regulations.

FRIDAY: Private members' Bills.

MONDAY (May 24): Private members' motions: opposed private business.

LORDS

MONDAY: Debate on the consultation document on transport policy.

TUESDAY: Atomic Energy Authority (Special Constables) Bill, second reading; debate on the permanent site for the European Parliament.

WEDNESDAY: Debate on recent session of the UN Law of the Sea conference.

THURSDAY: Development of Rural Wales Bill, committee; Endangered Species (Import and Export) Bill, third reading.

SELECT COMMITTEES

MONDAY: Expenditure (Education, arts and Home Office sub-committee), 3.45; Abortion, 4.00; Expenditure (General sub-committee), 4.15.

TUESDAY: Nationalised industries (sub-committee A), 4.00; Violence in the family, 4.00; European secondary legislation (sub-committee B), 5.00.

WEDNESDAY: Science and technology (Energy resources sub-committee), 10.30; Nationalised industries (sub-committee B), 10.45; Expenditure (Social services and employment sub-committee), 4.30.

THURSDAY: Race relations and immigration, 4.30.

CBI proposes separation
of post and telephones

BY OUR INDUSTRIAL STAFF

The Post Office should be divided, with postal services and telecommunications coming under totally separate management, according to the Confederation of British Industry.

The CBI, in its evidence, published today to the Government-appointed Carter review into Post Office operations, takes a view about division of responsibilities similar to that advocated by Sir William Ryland, the corporation's chairman.

Monitoring

Sir William, in a move not followed by other nationalised industry chairmen, withdrew the Post Office from the CBI last year. The CBI has been critical of the Post Office and its comments to Carter reflect concern that the corporation

is not sufficiently cost-conscious and that its marketing strategy is weak.

The CBI calls for a thorough analysis of the costs of each individual service provided by the Post Office, and urges that monitoring of financial performance should be improved. Where it was decided a particular service should be continued because it was considered "socially essential," the costs should be borne by the appropriate Government department.

Whitehall should assess services undertaken by the Post Office on an agency basis—payment of old age pensions, for example.

"Significantly improved standards of first class mail should be established, and plans implemented to achieve them on a continuing basis." There should be no further

deterioration in the standards of second-class post.

There should be a review of the plans for mechanisation. "If mechanisation is found to be beneficial, action should be taken to convert the whole system as rapidly as possible. If not, it should be abandoned."

Competition

On telecommunications, the CBI says, that the Post Office should be solely responsible for the network, but adds: "Competition by private suppliers should be permitted in the provision of all kinds of private exchanges and attachments."

Support is given to the Post Office case that the Government should take complete responsibility for funding facilities of the super-network before the formation of the public corporation in 1980.

Boeing starts sales
drive in Europe
for 7N7 airliner

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

BOEING of the U.S. has begun to make sales presentations to airlines of its proposed new 7N7 airliner—a stretched version of the successful short-range 737 model.

This week a team from the U.S. company will visit British Airways, which has a requirement for a short-range aircraft in the years ahead to replace its ageing Viscounts and One-Elevens.

Later Boeing will visit other airlines in Europe, seeking markets for the 7N7. It is holding discussions with Aerospaciale, the French aircraft builder, on the possibility of developing it jointly.

Full details of the 7N7 have been made public but it is known to be a derivative of the 737, of which several hundreds have been sold. It would be initially a twin-engine aircraft capable of carrying 125 passengers up to 2,000 nautical miles, with a variant seating 158.

This model could use the Franco-American (Sneema) General Electric CFM-56 engine, now under development.

Boeing's longer-term plans for the 7N7 include turning it into a family of jets, with an "intercontinental" or long-range (over 3,500 miles) model, called the 7N7-300, perhaps with four

engines (again CFM-56s) and seating 190 passengers.

Boeing has been quietly working on the design for about a year. It has not abandoned its earlier plans for another family of jets called the 7X7, but the strongest emphasis is being put on the 7N7 as a major programme for the immediate future, with the 7X7 coming in the 1980s.

The airlines are showing interest in the 7N7 because it is more in tune with their requirements, and particularly their budgets. Boeing has not published cash figures on the programme's cost, but it is believed to be considerably less than the 7X7 plans.

Boeing announced that it has won an order from Delta Air Lines of the U.S. for 21 more three-engine 727 medium-range jet airliners, worth well over \$200m., with deliveries spread to 1978.

This deal, the largest placed by any airline this year, indicates Delta's confidence that the recession is ending and that air traffic will grow.

The order brings total sales of the Boeing 727 to 1,278, of which 1,181 have been delivered. The new order is likely to make a substantial improvement in Boeing's production programme and employment this year.

Skilled labour shortage
'is pay policy danger'

BY OUR INDUSTRIAL STAFF

A WARNING of the dangers implicit in the next stage of incomes policy is given today in the latest economic report of the London Chamber of Commerce.

Welcoming the agreement to limit wages rises to 4.5 per cent, the Chamber says that there are still big problems to be faced—the erosion of differentials,

rising raw material prices, and the threat of a future wages explosion.

Shortage of skilled labour is seen as a particular problem. Attention is focused by the Chamber upon the impact of pay restraint on incentives for skilled workers and middle management.

Jeddah water schemes
to be speeded up

BY LORNE BARLING

WEIR WESTGARTH, which is to build a \$50m. desalination plant at Jeddah, Saudi Arabia, said yesterday that serious water shortages in the area meant that water supply plans were to be speeded up significantly.

The contract—part of a \$220m. deal with a West German-led consortium—is for Jeddah 3, the third phase of the city's power generation and water supply programme. It was announced last week, having been signed several

months earlier than originally planned.

The contract for Jeddah 4, for which British, French, Italian and Japanese companies are competing, is now expected to be awarded in the next few months, instead of in 1978 as originally planned.

Weir WestgARTH is also contracted to build a \$30m. plant, at Qatir, on the Persian Gulf, on which work is expected to start soon.

Merger and
takeover
activity
still low

COMPANY ACQUISITION

and merger activity is showing no sign of revival. The number of deals in the first three months of 1976 registered a small increase, but there was a slight fall in total expenditure.

Ninety-three companies were acquired or merged in the first three months of this year according to figures released by the Industry Department, compared with 72 in October-December and 56 in the corresponding period of last year.

The value of such transactions, though, fell from \$21m. to \$17.3m. in the two consecutive periods. It was only \$47.7m. in the first quarter of last year.

Average

In general, acquisition activity has been low since the second quarter of 1974 and total expenditure in the first quarter of this year has departed little from the quarterly average for the year.

The current figures are a far cry from those for the first quarter of 1973, when six big transactions took place with a value of \$223.7m.

There were three major acquisitions, accounting for more than \$10m. in the three months to March: Barratt Developments acquired H. C. Jones for \$11.3m., Northern Foods bought Cliver Dairies for \$10.5m. and Dixons Photographic took over Weston Pharmaceuticals for \$10.1m.

Saleroom

Bonheur horse
fight painting
makes £34,125

ROSA BONHEUR'S painting of the fight between the Godolphin Arabian and the English stallion Hobgoblin from the collection of the late Geraldine Rockefeller Dodge was sold by Sotheby Parke Bernet in New York on Friday for £34,125.

The price is a world record for a Bonheur painting, and the sale totalled £245,550.

Another painting by Bonheur, Spanish Muleteers Crossing the Pyrenees, made £16,350 and John Frederick Herdman's Good Friends sold for £14,198.

A further sale of 19th century pictures brought in £587,000. Jean Baptiste Corot's *Giorno-Ricordo* sold for £136,882.

Contracts won

TAYLOR WOODROW Construction (Scotland) has been awarded a civil engineering contract for work at Aberdeen airport and a building contract from the British Steel Corporation, worth a total of £225m.

U.K. wool textile
exports up 29%
in first quarter

BY OUR TEXTILES CORRESPONDENT

EXPORTS of Britain's wool world, at £25.6m., are showing a sharp increase in the first three months of this year, at £6.5m. In the first three months of 1975, exports were up 29 per cent on the same period of last year, reflecting the recovery which has now begun to take place in various markets in textile demand.

According to figures published by the Wool Textile Delegation in Bradford, the March total alone came to £24.3m., the second highest export figure recorded, and an improvement on the £22.5m. for the same period of last year. In the first three months of this year, the industry's exports amounted to £15m.

The figures show that the improvement is still taking place, with the early stages in the recovery of the wool textile industry being reflected in the export figures.

Exports of yarn rose by 34 per cent, in value terms, to £11.1m. in the first three months of this year, with volume also showing a 34 per cent increase. Exports of fabric were up 59 per cent, in value at £13.8m., an increase of 14 per cent, in volume and earnings, from £10.5m. in the first three months of last year.

The value of such transactions, though, fell from \$21m. to \$17.3m. in the two consecutive periods. It was only \$47.7m. in the first quarter of last year.

Europe

Shipments of wool cloth, at £19.7m., were still about 10 per cent down, however, on January-March of last year, in both value and volume terms. Significantly, sales in Europe are so far accounting for the bulk of the extra business this year.

Exports of cloth yarn and tops to the EEC countries, at £16.2m., were up 50 per cent, on last year, while sales to the rest of the

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PROFIT STATEMENT AND
DIVIDEND ANNOUNCEMENTS

The audited results of the group (excluding extraordinary items) for the 12 months ended 28th February 1976 were as follows:

	12 months ended 28.2.76 R000	14 months ended 28.2.75 R000	Converted to annual basis R000
Turnover	338 854	307 977	283 060

Group profit before taxation	12 887	11 219	9 816
Taxation	4 679	3 453	3 136

Group profit after taxation	8 208	7 766	6 680
Minorities	784	354	303

Profit attributable to shareholders	7 424	7 406	6 377
Number of ordinary shares in issue	23 654 400	23 654 400	23 654 400
Earnings per ordinary share	31c.	30c.	25c.
Dividend per ordinary share	11.5c.	12c.	10.5c.

For ease of comparison, the figures of the previous accounting period covering 14 months, have been converted to an annual basis.

Final Dividend No. 82 on Ordinary Shares

Notice is hereby given that a final dividend of 8.5 cents per share (1975-76 cents) has been declared on the company's ordinary shares, payable to shareholders registered in the books of the company at the close of business on 11th June 1976. Together with the interim dividend of 3c per share paid on 12th December 1975 this makes a total dividend of 11.5 cents per share for the 12 months ended 28th February 1976 (114 months ended 28th February 1975-76 cents).

The dividend is declared in the currency of the Republic of South Africa and becomes due on 12th June 1976. Dividends payable from the office of the company's London Transfer Secretaries will be paid in United Kingdom currency at the rate of exchange ruling on 12th June 1976.

Dividend warrants will be posted on or about 9th July 1976. Non-resident shareholders' tax at the rate of 14.517 per cent, will, where applicable, be deducted from dividends.

The ordinary share registers of the company will be closed from 12th June 1976 to 25th June 1976, both dates inclusive.

Interim Dividend No. 74 on Preference Shares

Notice is hereby given that an interim dividend of two and three-quarter per cent, has been declared on the company's preference shares, payable to shareholders registered in the books of the company at the close of business on 4th June 1976.

The dividend is declared in the currency of the Republic of South Africa and becomes due on 5th June 1976. Dividends payable from the office of the company's London Transfer Secretaries will be paid in United Kingdom currency at the rate of exchange ruling on 5th June 1976.

Dividend warrants will be posted on or about 30th June 1976. Non-resident shareholders' tax at the rate of 14.517 per cent, will, where applicable, be deducted from dividends.

The preference share registers of the company will be closed from 5th June 1976 to 18th June 1976, both dates inclusive.

By Order of the Board
J. P. Enslin,
Secretary

171, Jacob Mare Street,
Pretoria.

Office of the United Kingdom Transfer Secretaries:
Charter Consolidated Services Limited,
P.O. Box 102,
Charter House,
Park Street,
Ashford,
Kent TN24 8EQ.
14th June, 1976.

Agrochemicals sales
rise by 32%

BY OUR CHEMICALS CORRESPONDENT

SALES of agrochemicals for use in agriculture, the horticulture industry, forestry and gardening, rose by 32 per cent, at home and abroad last year, from £121m. to £160m.

Exports increased even faster, to reach £78m.—49 per cent, more than the £52.5m. recorded in 1974—and now account for roughly half of total sales.

Figures released by the British Agrochemicals Association show that herbicides continue to represent the biggest element in sales, with total sales at home of nearly £50m. and overseas of £24m.

Sales of fungicides totalled \$8.8m. in the U.K. and £3m. overseas. In the other main group, sales of insecticides in Britain amounted to £11.4m., and the same total was recorded overseas.

The Association points out that the increase in sales took place against a background of generally unfavourable weather and economic conditions for the industry.

Of the main U.K. crops, a total of 8.4m. acres of barley was grown last year, of which 7.9m. acres were treated with herbicides.

Total potato acreage amounted to 426,000, with 330,000 receiving herbicide treatment. In sugar beet 480,000 acres received herbicide treatment, out of 488,000 grown.

Only 1,06m. grassland acres were treated, out of 14.5m. grown, reflecting the downturn in profitability of the livestock sector and a decline in available cash for investment in grassland.

Slower rise in earnings
as wage restraints bite

BY MICHAEL BLANDEN

THE PRESSURE on living standards caused by wage restraints has been illustrated by the downturn in earnings growth in recent months.

The latest average earnings figures, for March, are due to be published on Wednesday. Earnings, which appear a month after the basic wage rate figures, are regarded as the more reliable indicator. They showed their smallest increase since July, 1974, in the 12 months to February.

In March, the restraints on the first time began to make an apparently significant impact on wage rates, which showed a 12-month increase of 22.9 per cent. This was a sharp drop from the increase of 27.3 per cent, recorded in the 12 months to February.

The level of retail sales, after a sharp peak in January, reflecting unusually successful annual sales, dropped back.

In March, the recently published revised figures showed the retail trade index back at 105.5 compared with 108.8 in January. The high level of January sales has been reflected in the consumers' expenditure figures for the first quarter. The first preliminary estimate of these published last month suggested a higher rate of growth than indicated by the Budget estimates.

But it is possible that the second preliminary estimate, due on Thursday, will show a less significant rate of increase. More up-to-date figures on retail sales are also due with the publication to-day of the provisional estimates for April.

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Communists quit Syrian coalition

By Ihsan Hiji

BEIRUT, May 16.

UNCONFIRMED REPORTS from Damascus claim that the Moscow-orientated Communist Party had suspended its membership of the ruling National Front headed by President Hafez Assad, amid reports of an impending Government reshuffle.

Communist disapproval of Syria's role in Lebanon is a possible reason. Informed sources say Soviet-Syrian relations are also suffering unpublicised strain.

Reliable sources said that Soviet President Leonid Brezhnev is due to visit Iraq later this month, but so far there were no indications that he will visit Damascus as well.

President Assad, informed sources said, has formed a special committee from his ruling Ba'ath Party to study proposals for a Cabinet reshuffle and decide whether the current Cabinet of Premier Mahmoud al Ayyubi should be replaced entirely or merely reshuffled.

In Damascus it was announced that President Assad had received Sunday an "urgent" message from the Soviet Party leader, Mr. Leonid Brezhnev. A spokesman declined to elaborate.

The Syrian regime is also under pressure from other sources. Its agreement to seek reconciliation with the regime of President Anwar Sadat, of Egypt through joint Saudi-Kuwaiti mediation, appeared to have angered Col. Muammar Qadhafi, of Libya. Major Jalloud, the Libyan Premier, arrived in Damascus unexpectedly last night with a message to President Assad from Col. Qadhafi.

Reported Libyan objection to the proposed reconciliation is not expected to deter Damascus. Syria needs Arab cover through the Riyadh conference for its reported decision to extend the mandate of UN forces in the Golan Heights when it expires at the end of this month.

Meanwhile yet another Lebanese ceasefire broke down last night with heavy fighting and shelling of residential areas of the capital resuming on a large scale.

The forty-fifth truce in the 14-month-old crisis was the obvious victim of political stagnation which has continued despite the election of Mr. Elias Sarkis as a new President.

Spinelli to stand on PCI platform

By ANTHONY ROBINSON

ROME, May 16.

ITALY'S Christian Democrat party has rejected out of hand the Communist Party's proposal for a "government of democratic unity" of all democratic parties, including the Communists, after the elections.

The proposal has also been rejected by the Social Democrats and Liberal parties while the Republican party, which has said it is strongly opposed to the idea of a Left-wing alternative government on Socialists and Communists, does not exclude the possibility of some form of participation of the Communist Party in a broader alliance after the election. The Socialists, although somewhat piqued that the Communist proposal has stolen some of their own electoral clothes, agree with the Communist line that 50 years of Christian Democrat hegemony has brought the country to such a state of decay that a substantial electoral defeat for the Christian Democrats and more votes for the Left-wing parties is required to permit a real change in the political situation.

The Communist Party, which has been the first to publish its electoral programme and complete its list of candidates, formally opened the campaign today with a mass rally in Rome addressed by party secretary Sig. Enrico Berlinguer. The campaign in Rome is particularly important because it is one of five major towns and cities where the electorate will vote for a new city council at the same time as voting in the general election for a new Parliament nationally on June 20-21.

The Communist campaign this time clearly aims at presenting the party as a potential government party. This is rejected by the Christian Democrats who intend fighting on a rigidly anti-Communist platform. They are asking for votes to keep the PCI out of government although the CD's do not exclude the possibility of a "constructive confrontation" with the PCI after

the election provided it remains as the principal opposition force.

The Communist Party has managed to enrol a number of prominent Catholics, specialists, artists, public figures and even military men into its list as independent. The willingness of disident Catholics like Piero Pratesi and Catholic intellectuals like Raniero La Valle to stand as independents on the PCI lists has led to accusations of treason by the Vatican. But the PCI independents also include the EEC Commissioner Sr. Altiero Spinelli, a former Communist militant imprisoned under Fascism and expelled from the PCI during this period for deviating from the party line. Luigi Spaventa, former Nato commander and air force general Nino Pasti and writer like Mario Righi Stern.

But the most controversial new face of all is that of Umberto Agnelli, deputy chairman of Fiat. His willingness to stand for a senatorial seat in Turin for the Christian Democrat party has led to a fierce internal dispute between Right and Left-wing factions of the party and destroyed Republican party hopes of enlisting his brother Giovanni Agnelli of part of a wider strategy aimed at making the Republican party the influential voice of the productive middle and managerial class.

Apart from the retirement of a few party veterans such as ex-Premier Giuseppe Peella the CD party is having enormous difficulties persuading some of its more controversial figures, like Antonio Gava in Naples and Giovanni Gioia in Palermo, to give way to younger figures less tainted with corruption or alleged relations with the Mafia. With Amintore Fanfani back in a key position as President of the party flanked by Prime Minister Aldo Moro the much vaunted "renovation" efforts by party secretary Benigno Zaccagnini have given way to the old and tried methods which have kept the Christian Democrats in power up to now.

French deficit narrows

By ROBERT MAUTHNER

PARIS, May 16.

FRANCE HAD a seasonally adjusted trade deficit of Frs.328m. (about \$28m.) in April, a reduction of nearly Frs.500m. compared with the previous month, thanks to a much faster rise in exports than imports—more than 5 per cent. as against 2.6 per cent.

This brought the total adjusted deficit over the first four months of this year to Frs.2.3bn. compared with a surplus during the same period of last year of Frs.3.5bn. The deficit in April was also smaller in absolute terms, falling to Frs.120m. last month from Frs.150m. in March. Commenting on the figures, M. Raymond Barre, the Foreign

Trade Minister, noted that the sharp increase in imports which was a feature of the first phase of the economic upswing during the second half of 1975, was now beginning to level off, while French exports were making the most of the world economic recovery.

At the same time, however, M. Barre issued a warning against any undue optimism. Imports of energy products into France still amounted to Frs.4.8bn. in April and continued to weigh heavily on the trade balance, while the instability of the currency markets was a constant threat to France's foreign trade.

Bangladesh mass march on Indian dam

By Our Own Correspondent

RAJSHAH, Bangladesh, May 16.

MORE THAN a quarter of a million people started out on a 45-mile march to-day from this small town about 200 miles north-west of Dhaka to protest against India's unilateral withdrawal of the Ganges water at Farakka. The peaceful demonstration, which is being led by the 87-year-old pro-Peking Bangladeshi politician, Moulana Bhashani, will end at the Indo-Bangladesh border to-morrow evening amid signs of tension between the two countries. As thousands more join the marchers every hour from all over the country reports from across the border indicate that India is massing troops along the Indo-Bangladesh border near the Farakka Barrage. An Indian Government spokesman in Delhi said yesterday that the border security force of India has been alerted to stop any intrusion on Indian territory by the Farakka peace demonstrators.

Before leaving Rajshahi at the head of the largest-ever demonstration held in Bangladesh, Mr. Bhashani urged the marchers not to cross the international boundary.

As preparations for the Farakka march were going on in Bangladesh the Indian government told the Bangladesh High Commissioner in New Delhi that while India could only deplore the hostile propaganda against India the New Delhi authorities cannot but take a serious view of the attempts to unleash mob fury and violence in the threatened march towards Farakka. The Dacca government has rejected this view.

Bangladesh's strong man and chief of army staff Major Gen. Ziaur Rahman who made a week-end dash to the Islamic Foreign Ministers' conference in Istanbul told the 42-member conference that "Bangladesh must get its due share of the Ganges water."

Kashmir issue is 'shelved'

NEW DELHI, May 16.

THAT the thorny issue of Kashmir, the main bone of contention between India and Pakistan for the past 25 years, was not discussed at last week's talks in Islamabad suggests that both countries are willing to recognise the realities of the situation. Diplomatic observers here say that the "line of actual control" in Kashmir is now virtually de facto border. The line is comprised of positions held in Kashmir by troops of the two countries—when hostilities ended in the 1971 war over Bangladesh.

EEC ministers aim at elections plan by July

By GUY DE JONQUIERES, COMMON MARKET CORRESPONDENT

LUXEMBOURG, May 16.

THERE now appears to be a widespread conviction among Foreign Ministers of the Nine, following their private meeting here this week-end, that major decisions on the future political development of the EEC cannot be delayed much longer without risking a further serious decline in public confidence in the Community.

Though no substantive decisions were taken this week-end, several of the participants indicated that the talks had served to clear the air and that they were more hopeful that agreements could be reached in the coming weeks which would inject new life into the Community's political mechanisms.

Specifically, the Ministers are understood to have reached an informal understanding on the need to achieve a compromise on the question of direct elections to the European Parliament in time to present the EEC Heads of Government with an agreed plan when they meet in Brussels in mid-July.

Efforts to resolve this thorny issue are expected to dominate the Ministers scheduled meetings between now and then, the next of which is due to take place in two weeks' time. It is understood

that they have agreed to hold a special extra session next month if necessary.

According to participants, this week-end's meeting saw the adoption of a more flexible approach by the Italian Government, which is eager to be able to portray some progress inside the Community before next month's elections. But considerable dif-

ferences remain over the number and distribution of seats in the new Parliament, with both Britain and France displaying notable reluctance to give ground so far.

France is understood to have stood firmly by its most recent proposal to keep the number of seats in the Parliament at its present level of 198. Britain

objects to this scheme because it would give Scotland and Wales more restricted representation than that of small EEC member countries with similar populations.

But France has also apparently conceded that there is some merit in a German plan to double the number of seats for all countries except Luxembourg, though it is by no means certain this would prove acceptable to Britain. The plan was discussed by the German Foreign Minister, Herr Hans Dietrich Genscher, with his French counterpart, M. Jean Sauvagnargues in Paris on Friday.

Another positive side to emerge this week-end was a general agreement to give concerted study to the report on European union by the Belgian Prime Minister, M. Leo Tindemans, which had been gathering dust since it was published earlier this year.

Discussion of the report will form part of regular consultations by Ministers of the Nine and no special working group will be set up to deal with it. Many Community observers remain doubtful that the current political climate is ripe for adoption of the body of the report's proposed reforms.

Lardinois defends skim milk plan

By DAVID CURRY

BRUSSELS, May 16.

M. PIERRE Lardinois, EEC Farm Commissioner, who last week came under renewed attack in the European Parliament for his handling of the surplus skim milk problem, replied over the week-end to critics of the scheme to incorporate skim in animal feed stuff.

Addressing the European Congress of animal feedstuff manufacturers, M. Lardinois said the feedstuffs industry had done well out of EEC farm policies and had a duty to help dispose of the surplus. However, he pledged that the incorporation programme would not be repeated. "As soon as you have bought 400,000 tonnes of powder,

the programme will end and will not be renewed," he declared.

He confirmed that he would make proposals soon for the introduction of producer co-responsibility in the milk sector to try to re-establish equilibrium in the industry.

The day before, M. Lardinois spoke to the Conservative group in the EEC Parliament had put down a motion of censure against the Commission for its handling of the skim problem. This is only the second time that the Parliament had been asked to pass such a motion which requires two-thirds of the votes cast and 50 per cent. of all MPs.

Conoco gets big Egyptian concession

The American Continental Oil Company has agreed with the Egyptian General Petroleum Company to survey a gigantic 300,000 sq. kms. of Egyptian desert. Michael Tingay writes from Cairo. Under the terms of the agreement, which has yet to be signed by the Minister of Petroleum, Conoco will get first bite at the areas most likely to contain oil.

The concession covers an area across the southern part of Egypt's western desert larger than the total area of all the other 33 foreign oil exploration concessions put together. It is understood to include an initial exploration period of one year during which geophysical surveys will be carried out. A second phase, intended to be 11 years, would commit Conoco to spending \$23m. on exploration.

is seriously deteriorating, bringing the world to the brink of an explosion which might lead to bitter and extensive conflict.

N.Z. wage freeze

A freeze on wages, company directors' fees, dividends and charges by service professions such as dentists or veterinarians has been imposed by the NZ Government, Dai Hayward writes from Wellington. Government has allowed a 7 per cent. wage increase with maximum of \$7 per week for those on higher incomes to compensate for cost of living increase this year.

October, our Nicola correspondent writes. The new movement, called "democratic rally," said in its first proclamation that it will seek to become "the bastion of the great mass of the Greek Cypriot people, so that there will be an end to the situation in which Communists and fellow travellers are the arbiters of Cyprus political affairs."

Angolan PM call

ANGOLA'S Prime Minister Lopo de Nascimeto, in Cabinda on a short visit, called on Angola's neighbours to "carry out agreements" already made with the People's Republic, saying of Cabinda's closest neighbours, "When neighbours are not friends they must at least co-exist." Jane Burgerol writes from Luanda.

Although the Prime Minister did not refer to Zaire by name, his words were clearly directed at Kinshasa, which, it is feared in Luanda, may still be providing some backing for the Cabinda separatists and for residual FNLA soldiers.

Hanoi message

Hanoi may be ready to ease relations with Thailand now that the new Seni Pramoj Government is firmly established with a comfortable parliamentary majority, Richard Nations writes from Bangkok. This is the message the Thai Ambassador to Laos, Sawet Komolaputti, brought back with him to Bangkok, where he has returned for a routine medical check-up.

Clerides' new party

Mr. Glafkos Clerides, president of the Cyprus House of Representatives, has announced the formation of a new right-of-centre political party to contest the general election planned for next

Cairo war minister to North Korea

By Richard Johns

CAIRO, May 16.

EGYPT'S Minister of War and War Production, General Mohammed Abdul Ghanem Gamassy left to-day on an official visit to North Korea in search of spare parts and possibly weapons which have been denied by the Soviet Union.

After his stay in Pyongyang he will go on to Peking following up last month's visit by Vice-President Hosni Mubarak. Although China's offer to assist Egypt with military supplies was gratefully received and was a useful political bonus, it is acknowledged here that there is a limit to what Peking can give because of the relative age of its Soviet-derived arms technology.

North Korea, however, has in its arsenal more modern weapons. In addition, Pyongyang, anxious to tread a middle course between the Soviet Union and China, has maintained good and friendly relations with Cairo.

Experts here say that for the air force China can only help with the service and maintenance of MiG 17 aircraft which now are really only of use to Egypt as trainers. North Korea could probably help with the MiG 21, still the country's main front-line aircraft.

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EMPLOYEE FRINGE BENEFITS

Uncertainties of new taxation

BY DRYDEN GILLING-SMITH

A FACTOR which is likely to have a significant effect on living standards this year is the tax many employees—and not just senior executives—will have to pay on benefits they receive as part of their total remuneration package. The 1976 Finance Bill contains a number of major changes in the tax to be paid on a whole range of benefits and where this is substantial it may make a hole in the real income levels of many employees that will dwarf all other components of this year's pay equation—permitted pay increases, adjusted tax thresholds and retail price increases.

Yet the provisions are not easy to understand—many tax experts still do not yet agree how they are likely to be interpreted. What is more there are many anomalies and absurdities. Miners' free coal appears to have been left untaxed, but the invisible benefits enjoyed by employees in the service industries who can buy their employers' surplus capacity—for example, unsold airline seats—are to be taxed not on the cost of such benefits to the employer but on a theoretical arm's length market place price.

Unfairness

If these provisions are the ones the Chancellor of the Exchequer sees as a "fairer" basis of taxing total remuneration, they are likely to provoke violent feelings of unfairness and discrimination by different groups of employees when the effects are felt. One suspects that the full implications of many of the provisions have simply not been thought about at all.

Cars and loans have attracted most attention. Clearly there is still a strong balance of advantage in having a company car and paying tax at the new scale rates, as opposed to having to "buy a car out of one's own salary. In any case no employer in his senses is going to switch from providing cars to not providing cars as a result of the Finance Bill since, for example, he would lose a depreciation benefit. The tax changes mean

that a given level of expenditure by the employer is no longer capable of generating quite the same level of net-of-tax benefit to the employee (although some employees such as those already assessed for a tax on a high private mileage expect to be better off than under previous arrangements). But the car will still remain a favourite benefit for any employee who wants a car of the kind that his employer is prepared to give him.

The main criticism of the new rigid scale of charges based on

production or services sold by companies to its employees at a fair "arm's length" market price.

A better example would be a conglomerate operating a chain of hotels in pleasant holiday resorts in Western Europe and an insurance company that sold holiday cancellation insurance policies. The hotel chain might offer employees its unused capacity in the form of off-season hotel accommodation at a cost of little more than that of laundering the sheets and some supposed arms length pillowcases and a small contri-

bution to wear and tear of furnishings and carpets. The insurance company might offer its employees the holidays it could pick up by paying the cancellation claims. To tax employees who benefited from such arrangements on the normal market price of what was being offered is likely to result in a substantial amount of this unused capacity merely going to waste. Fewer employees will take up the offer because they cannot afford to pay the tax.

Taxation of a service provided for nothing or at low cost to employees has many ramifications. The employee working for a firm of solicitors who gets free legal advice from one of the partners could presumably be taxed on the fee that the partner would have charged an outside client—provided the Inspector of Taxes were able to listen into the private office conversations of the people concerned. When one considers the vast range of invisible advantages that most people are able to derive from their jobs, the mind

It is still not clear what effect many of the provisions of the Finance Bill will have on employee benefits. Tax experts disagree on the way many are likely to be interpreted, especially over how items such as cheap air travel and hotel rooms or free legal advice should be valued.

market price—are to be taxed. Obviously if an airline has unsold seats which it allows its employees to purchase at a nominal price the cost to the employer of providing this benefit is virtually nil, and the value to the employee substantial. This is therefore a very cost-effective means of remunerating employees. However, if the employee is now to be taxed at 35 per cent, 50 per cent, or whatever, his marginal rate of tax, on the full price of the seat ticket, less the 10 per cent he has paid for it, the value of his benefit has been substantially reduced and he may decide not to take it up at all. Furthermore, he could well find that he is paying more than the outsider who buys his ticket from a charter firm.

Airline tickets do not provide the ideal basis for considering this problem because there are inevitably arguments about staff using genuine spare capacity or taking up seats that might otherwise have been sold in the open market. Also, the availability of substantial reductions for charter flights must pose

problems in determining this type of benefit into charge for tax purposes. There is a wider, though not easily quantifiable economic aspect to this problem. Presumably employees who benefit from using their employer's spare capacity are content enough not to want to leave for a higher cash wage in a job which does not offer comparable opportunities. At the same time, an employer turning unused capacity into remuneration is presumably able to operate on a lower wage and salary bill than he might otherwise have to face and hence his prices should be lower.

Unfortunate

The unfortunate aspect of the employee benefits section of the Finance Bill is not that it brings benefits such as cars within the tax net. It was, in fact, an error of popular mythology to suppose that such benefits were previously tax-free. The Inland Revenue operated a very efficient and comprehensive system with which most recipients of such benefits were all too familiar.

In attempting to go overkill by elaborating these tax rules in a series of complex and fundamental changes in the basis for assessing tax, the legislation is likely in large measure to be counter-productive even for the tax men. Instead of generating more tax revenue it is likely to provoke an increasing number of consenting taxpayers into military loophole-seekers, and to reduce the cost-effectiveness of many existing company remuneration policies.

The author is a consultant on employee benefits with EBS (Management).

Taping the message

By Tony France

CASSETTE TAPES have been chosen by Pearl Assurance as a way of communicating with its staff. Some staff work in 500 district and divisional offices while others are field staff lecturers and area training officials. In turn they have to relay news to 7,000 members of the company's field staff.

Such topics as guaranteed insurability benefit, the new Pearl Girl policy, and information affecting insurances on house mortgages, cars, children, families, pensions and retirements, which used to be covered in print, are now on Scotch AV cassettes made by 3M.

Not only is information about new policies given, but the medium is also used in training to complement courses and on-the-job training. A new agent is provided with basic product knowledge which he can acquire at his own pace from the cassette and this should enable the district manager to spend more time on personal training, according to Pearl.

Introducing tape teaching to Pearl involved the purchase of some 500 cassette recorder/players and thousands of cassettes with playing times from 20 minutes upwards. Master cassettes are recorded in Pearl's studio in High Holborn on 3M's Wollensak 2551AV visual-synch recorder which is capable of recording pulses to change projector slides automatically if required. Another Wollensak machine, the 2770AV duplicator, produces 500 copies of the master cassette at high speed—two every three minutes. The copies are then mailed to the district offices.

The first cassette issued contained instructions on the use of the cassette equipment, as well as information on the company's guaranteed insurability benefits policy. With it was a blank cassette for use as training aid. Further cassette issues are scheduled at monthly intervals.

A system of job evaluation

FOR OVER 30 years, the Institute of Administrative Management has provided a grading system whereby evaluation of office jobs can be carried out on a systematic basis. Now, the Institute's scheme has been revised to cover a range of specialist staff such as computer programmers, organisation and methods people and various levels of supervisor.

All the categories are covered in a new book, Office Job Evaluation, published to-day by the Institute (price £8, available at 205, High Street, Beckenham, Kent), the first part describing the grading system and the second part covering the different staff categories.

EXECUTIVE HEALTH

The predatory creature that comes in Spring

BY DR. DAVID CARRICK

WHAT DOES SPRING mean to you? The miracle of fresh songs from enlivened birds? The delicate green of daintily early trees? Or that matter to which the young man's fancy lightly turns?

All these charming facets are with us now, but other less felicitous creatures of a predatory nature also, alas, are awakening to offset the harmony and happiness offered by Nature. I refer to the death-watch beetle, whose eerie tapping reminds me, as I listen to it in my ancient house, of the noise made by some distant and ghostly carpenter erratically hammering nails into a coffin. But *Xestobium rufohilum* at his worst does not evoke so much anxiety and even desperation as does another boring predator now in its imago stage. This is the Inland Revenue official who is busily tapping out chilling and inflammatory letters concerning income tax etc. which, like curare-tipped darts, are paralysing their targets by first-class post.

Agitated

What, anyone may well ask, has this to do with health or illness? A great deal, in fact, because certain patients and patients-to-be become greatly agitated by the type of epistle typical of the Inland Revenue. Addressed in the usual hermetic fashion of "Dear Sir or Madam" they contain sentences which, if penned by one human to another, would be actionable because of their defamatory nature, and are additionally offensive in their clear message that the recipient is already adjudged guilty unless he or she can prove innocence to their satisfaction.

Not long ago, a charming patient who suffers from re-current psychological illnesses, like a dangerous threat, explained to me in a very bad way, after some evasions about reasons, she produced one of those letters. All the familiar stuff was there: hints about hidden sources of income—the "reasons to believe" incomes were being suppressed—and the rest it out.



of the jargon with which most readers must be familiar. Having calmed her down and established that, with her income as an office worker, nothing of significance could be owing, I offered to deal with the matter—an offer that was more beneficial than a whole box of pills. Being in London, naturally it was to the North of England that I had to write, my letter opening with a statement that I felt that they should know that they had undone a whole year of my work (which was quite true) and I went on to demand an apology at the earliest.

As nothing was forthcoming after seven days, I rang up. A North Country female was surprised and protested that "it were quite a normal letter," intimating that I was making a fuss about nothing. "Normal to you, maybe," I said, "but to one who has been chased by the Gestapo, it sounds very much like a dangerous threat," explaining that my patient was a former war refugee. And I asked what had happened to the apology I had demanded. That was easy: it "were all in the computer," so I suggested that she put her hand in and pulled "the wicked creature from troubling, and the weary are at rest."

To her credit and my surprise the story had a happy ending. Not only did my patient receive an apology but a rebate of £49 into the bargain! That was having jam on it; but two questions arose and stayed in my mind. Firstly, how much money is owed to those allegedly owing money to the Inland Revenue? And, far more important, how many serious mental illnesses are triggered off by the bloodless controllers of soulless computers that despatch terrifying near-threats to the defenceless?

Dying queen

Tennyson's dying May Queen might have said to-day: "I did not hear the dog howl, nor the death-watch beat, I read a dreadful letter with demands I cannot meet."

And that poor maid suffered only from tuberculosis which ended her young life at peace, untouched by the mental tortures which, with their "quite normal letters," cause mind anguish to the recipients and much work for those who strive to save them from that place where "the wicked creature from troubling, and the weary are at rest."

The longest running show on earth?



Sandra Vaughan
Receptionist
Lion Hotel
Shrewsbury
United Kingdom



Claude Guibert
Manager
Plaza Athénée Relais
Paris, France



Alston Tait
Maître d'hôtel
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The Hon Mr S Rajaratnam
Minister for Foreign Affairs, Singapore

RUSSIA, CHINA AND THE REST OF ASIA

The Rt Hon Lord Chalfont, CBE
Former Minister of State for Foreign Affairs, UK

THE COMMUNITY OF INTEREST WITH THE DEVELOPED WORLD

Secretary Vicente F Paterno
Department of Industry, Philippines

THE RESPONSIBILITIES OF JAPAN AS A MAJOR ECONOMIC POWER

Mr Toshio Shishido
The Nikko Research Center Limited

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Major General Ali Moertopo
USIS, Indonesia

SYNCHRONIZING INTRA-MEMBER POLICIES AND RELATIONS WITH PRINCIPAL NON-ASEAN TRADING PARTNERS

Mr Sixto K Roxas
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Australian National University
Research School of Pacific Studies

DEVELOPMENTS IN INDO-CHINA

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National Institution of Development Administration, Thailand

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Building and Civil Engineering

£11m. for Bahrain housing

TARNAC International has won a contract in Bahrain worth over £11m. to build 500 homes in a joint venture with local contractor Abdullah Ahmed Nass. This brings the total value of work being carried out under Middle East contracts awarded to Tarnac in the past two months to nearly £30m.

Under the latest contract work is starting shortly on 205 two-bedroom bungalows, 215 three-bedroom and 80 four-bedroom houses at three sites—Hidd, North Arrad and Muharraq. Specially designed for the Gulf area, the system-built precast-concrete homes include a family room, kitchen and a Masjid—a room set aside for men. The three- and four-bedroom houses each contain two bathrooms.

Up to 200 workers are expected to be engaged on the two-year development, commissioned by the Bahraini Ministry of Housing.

Higgs & Hill get £10m. road job

A BIG road job is to be undertaken in Trinidad by Higgs and Hill.

The £10m. contract has been awarded by the Government of Trinidad and Tobago Ministry of Works, Highways Division, and will involve construction of several sections of dual three-lane highway and extensive road improvements over a total of seven miles between Port of

Spain and Piarco International Airport

Four new bridges will be built and two existing bridges are to be demolished. Two viaducts, one a 23-span 1,800-foot long structure and the other a 14-span 950-foot bridge will be constructed and repair work is to be carried out on an existing flyover.

Other work includes construction of three major intersections and two pedestrian bridges, plus several embankments and culverts. A section of the St. Joseph River will have to be cleared, excavated and realigned.

£4.4m. Kier award in Seychelles

SIX months after handing over the Cascade Waterworks, Kier International has been awarded the £4.4m. first contract on the La Gogue scheme, the third stage in an overall water supply scheme for Mahé, the main island in the Seychelles.

Preparations are being made for an immediate start on the three-year contract. An earth fill dam on the La Gogue river north of the capital Victoria is the main work, with a draw off tunnel and an 8 km run of 450 mm diameter ductile iron pipe leading to the existing dam at Rochon to the south.

The dam on the La Gogue will have a crest height rising to 28 metres. About 400,000 cu. metres of rock fill for the dam will be won from local outcrops. All stages are parts of the comprehensive water supply scheme for Mahé devised by Howard Humphreys and Sons, consulting engineers to the Crown Agents who are representing the Seychelles Government for the project.

£2m. water project

JOHN LAING Construction, Engineering Division, has been awarded a £2m. contract to construct a large covered reservoir at Raywell, North Humber-side, for the Yorkshire Water Authority, Eastern Division.

It will have a capacity of 22m. gallons and will become the terminal storage reservoir of a new water supply scheme serving the division.

About 130,800 cubic yards of excavation will be required for the mainly concrete structure, two-thirds of which will be underground with the remainder concealed by landscaping.

The contract includes laying of 2½ miles of 36 inch diameter steel water main to connect Raywell to the existing Keldgate reservoir which has a storage capacity of 18m. gallons.

LAING has also won a £562,000 contract to build new Government offices at Bathgate, West Lothian. The three-storey building will provide 25,000 square feet of accommodation and will form an extension to an existing Government building in Whitburn Road, just off Bathgate's main road.

Wimpey in housing and takeover

NOTTINGHAM OFFICE of George Wimpey has taken a £1m. contract to build 168 dwellings for the Derwent Housing Society.

No-fines houses, traditional houses and flats able to accommodate 778 persons are scheduled, together with the necessary roads, sewers, external works, stores and parking facilities.

Situated at Prior Meadow, Little Billingsway, Northampton, the development is to be completed in 75 weeks.

In the meantime, the acquisition of Alex Robertson (Borders) of Dunfermline by Wimpey has been completed.

The company is a public works contracting and quarrying organisation operating from a centre between Perth and Inverness. As such it is a valuable adjunct to the company's operations in an area where vast North Sea projects are taking shape.

Schools and shops

CONTRACTS valued over £1.5m. for housing, schools and shops at Oldham and Bolton, Lancs. have been awarded to Styles and Wood.

Two of the contracts are for Oldham Metropolitan Borough, one for extension and interior remodelling of Havenside Replacement School (£128,147) and the other for a school at Gorton (£128,149). A supermarket and block of shops with flats over in the same complex will be handed over in November this year at a cost of £213,000.

£2m. worth for Elmer

A HEALTH centre is to be built at Welch Way, Witney, by D. C. Elmer (U.K.) for Oxford Regional Health Authority.

This is one of several contracts, together worth about £2m., either about to be started or just getting under way.

Among the others is a warehouse for F. C. Bennett and Sons at Thame, a squash club at Bloxham, Banbury for Stanley Russell and Associates, a school at Abingdon for Oxfordshire County Council and timber-framed houses at Bagshot, Surrey for Crest Homes.

Costain's £30m. tower

BANK FACILITIES, shops and offices are to be erected under a massive £30m. project Costain Australia has been commissioned to build for the State Bank in Melbourne.

The project will be dominated by a 41-storey tower rising to 168m, soaring above surrounding buildings. It will house the head office and main branch of the bank as well as banking chambers, arcades and a glass-roofed gallery of shops providing more than 2,700m² of accommodation.

Construction of the complex is reinforced concrete and structural steel with polished precast cladding and aluminium windows.

Beneath the centre will be three basements with parking space for 250 vehicles. Main entry to the tower will be through a covered plaza at street level. The lift lobby will have 19 lifts serving upper floors.

Work has begun and is due for completion in 1980. Architects are Macdonald and Secomb, structural engineers Irwin Johnston and Partners Pty. Specialist services have been designed by Lobley Triebel and Partners Pty.

£22m. sugar plant

FIRST MAJOR contract for the recently formed Tate and Lyle Engineering company is for the construction of a sugar factory at Las Majaguas, Portuguesa State, Venezuela.

Worth £22m, the contract has been placed by Cenazuca, the Venezuelan Government sugar company, which will probably be buying and refining the raw sugar produced by the factory.

A turn-key project, work on the green field site is to start immediately. Tate and Lyle Engineering is acting as main contractor and designer. Much of the sugar processing plant and machinery will be supplied by the company's subsidiaries, such as Mirreles Watson, but decisions regarding the sub-contracting of the civil engineering work have not yet been made.

The factory is due for completion by November 1978, with a throughput of 7,000 tons of cane per day. This can be extended later to 10,000 tons/day.

the year, and it is expected that it will be available for sale early in 1977.

Blaw Knox is a member of the Babcock and Wilcox Construction Equipment Group.

Blaw Knox of Rochester, Kent announced the introduction last week of three new pavers.

The smallest, the BK30 is designed for use in confined spaces. Fully hydrostatic, it is suitable for paving narrow urban roads, pathways and car parks.

The medium-sized BK75 is a fully hydrostatic paver suitable for work on both large and small paving contracts, but will not be available for sale until late summer this year.

Third machine in the trio is the BK90, a large paver, with mechanical transmissions. It is stated to incorporate new ideas from an experimental housing development, Corby Development Corporation is holding an open day on June 10.

In the Soathill experiment, the land on which the houses have been built has been restored after the extraction of iron-ore by open-cast mining methods. The actual settlement to be determined to within ± 1mm.

The dynamic Group in the building business...

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At a time when more and more pressure is being put on local authorities to reduce the erosion of good arable land for property construction, the work at Corby is of great interest. It has been undertaken with commendable thoroughness and could almost serve as a pattern for similar work elsewhere.

Prior to the start of building, three pre-treatment methods were used on the same number of sites—each 50 metres square. The methods included trenching and flooding, the water level being maintained for a period of ten weeks, after which overall settlement was measured at 100 mm.

The second method required the land to be covered with quarry spoil to a height of 10 m. After six weeks it was removed when the average settlement amounted to 400 mm.

The third method involved dropping a considerable weight all over the site from a given height. The work is derived from a French patented method of ensuring that a given site will bear pre-determined loads and is not possible to give a meaningful settlement figure.

No special precautions have been taken in the design of the houses—each site has taken six of them—and it was decided from the outset that private developers' ordinary houses would meet the needs of the experiment.

Wilcon Construction of Northampton built the three groups of houses plus, one on an untreated site, two pairs of semi and a detached house. Construction was completed this month.

Monitoring is to be carried out by Building Research Establishment staff through a grid of points established in boreholes sunk through the fill to the quarry bedrock. This will allow the actual settlement to be determined to within ± 1mm.

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CONTRACTS AND TENDERS

SUDAN RAILWAYS
CONTRACT NO. 4285
SUPPLY OF FENDER AND CARGO PONTOONS

DETAILS

1. Controller of Stores, Sudan Railways, Khartoum, invites tenders for Alternative bids for 5, 7 & 8 Fender and Cargo Pontoons. 2.57 Port Sudan base and tenders must be valid for three months from the closing date.
2. Tenders should be submitted to the Controller of Stores, not less than 21 days before the closing date of the tender, and should be accompanied by a deposit of the 10% value of tender or by a bank cheque or bank draft for 10% of the value of the tender, payable to the order of the Controller of Stores, Sudan Railways, Khartoum.
3. Successful tenderer must be required to complete delivery of 10% of the value of the tender, payable to the order of the Controller of Stores, Sudan Railways, Khartoum, within 10 days of the date of the award of the tender.
4. Tenders are requested to ensure that their tenders are received in the office of the Controller of Stores, not less than 21 days before the closing date of the tender, and should be accompanied by a deposit of the 10% value of the tender, payable to the order of the Controller of Stores, Sudan Railways, Khartoum.
5. If the contractor fails to complete any portion of the work in accordance with the contract within the time for completion thereof set out in his tender, the contractor shall pay to the Railways a sum of £4,000 per week for each week or part thereof in which the work is not completed, and the contractor shall be liable to pay to the Railways a sum of £4,000 per week for each week or part thereof in which the work is not completed, and the contractor shall be liable to pay to the Railways a sum of £4,000 per week for each week or part thereof in which the work is not completed.
6. Sudan Railways Corporation has received a credit from the International Development Association (IDA) of U.S.\$24.0 million towards the cost of the Third Railways Project and intends to apply the proceeds of this credit to the purchase of fenders and cargo pontoons for the project. It is intended that the purchase of fenders and cargo pontoons for the project will be made by the International Development Association in accordance with the terms and conditions of the credit agreement. The International Development Association will be the sole source of supply for fenders and cargo pontoons for the project.
7. The contract price will normally be paid in the currency or currencies in which the price has been stated in the tender. However, the International Development Association may require that payment of the contract price be made in the currency of the country from which the goods financed by it are supplied if the price is stated in other currencies.
8. PAYMENT. By means of a letter of credit opened on a commercial bank in the Supplier's country. The commercial bank will be reimbursed directly by the International Development Association upon a guarantee to be issued to the commercial bank on our request. Payment would be 10% on order, 25% on delivery of materials in full and 65% on completion of the work.
9. Tenderers should bear the cost of postage and packing for the tender documents and should also bear the cost of postage and packing for the tender documents and should also bear the cost of postage and packing for the tender documents.
10. Rates of stamp duty according to Sudan Law No. 10 of 1962 are as follows: Tenders exceeding £1,000,000 m.m. ... 0.25% m.m. Tenders exceeding £1,000,000 m.m. ... 0.25% m.m. Tenders exceeding £1,000,000 m.m. ... 0.25% m.m.
11. All tenderers should state the following information: (a) Name and full address of the tenderer. (b) Name and full address of the tenderer. (c) Name and full address of the tenderer.
12. Successful tenderer should complete and sign Form 12/24 relating to the conditions and procedures of the contract when required.
13. Controller of Stores is not bound to accept the lowest or any tender.

M.R.—SPECIFICATIONS AND DRAWINGS ARE AVAILABLE FROM THE SUDAN GOVERNMENT PURCHASING AGENT, 3-5 CLEVELAND ROW, ST. JAMES'S, LONDON, S.W.1.

Guide to blowing up buildings

SINCE THERE is little written information to guide designers and users of air supported structures, the British Standards Institution has brought together the current information and has published DD 50, a draft for development mainly aimed at encouraging feedback from users so that a definitive British Standard can be written as soon as possible.

BSI defines an air supported structure as "a space-enclosing single skin membrane anchored to the ground and kept in tension by internal air pressure so that it can support applied loading."

Initially used for warehousing and sports activities, air supported structures are now being used more ambitiously for general purposes. At Milton Keynes, for example, there are five airhouses used as cafeteria, library, laboratory, conference house and machine shop/stores.

DD 50, which is available from BSI Sales Dept., 101 Pentonville Road, London N1 9ND at £3.10, gives recommendations covering the design, construction, operation and maintenance of single-skin air supported structures; it deals with complete structures and with specialised components.

Pipeline in Sussex

HOLLAND Hannen and Cubitts (Civil Engineering) has been awarded the contract for a £1.5m. trunk water main between Barcombe and Horstead Keynes for the Mid-Sussex Water Company. The work forms part of the company's Ardingly water scheme.

Cubitts will be laying 17.5 km. of 800 mm diameter ductile iron concrete-lined pipes and reinstating the land along the route of the pipeline.

Work will begin in June and the pipeline will be fully operational in September 1977.

The Construction Industry Research and Development Association (CIRIA) has awarded a research contract to consulting engineers J. D. and D. M. Watson to produce recommendations for a range of preferred sizes and shapes of process units for use in sewage treatment works.

A. F. Budge (Contractors) has been awarded the £1.5m. Bury Lower relief road contract by Bury Metropolitan Borough Council acting as agent for Greater Manchester Council. The work, due for completion in July next year, calls for the construction of 1.5 km. of dual carriageway. Included in the contract are three bridges.

Mears Construction has been awarded a £16,000 contract to erect 37 dwellings in four blocks at the Pier Road extension, Newham, London, for the GLC Department of Architecture and Civic Design.

Ward Ashcroft and Parkman (Nigeria) in association with C. O. Idowu and Associates, have been appointed by the Federal Ministry of Works, Lagos, to study the feasibility of a highway from Auchi to Idah and Nsukka to Obolo. The road, total length 200 km., will cross the River Niger at Idah.

roads before roadsters...

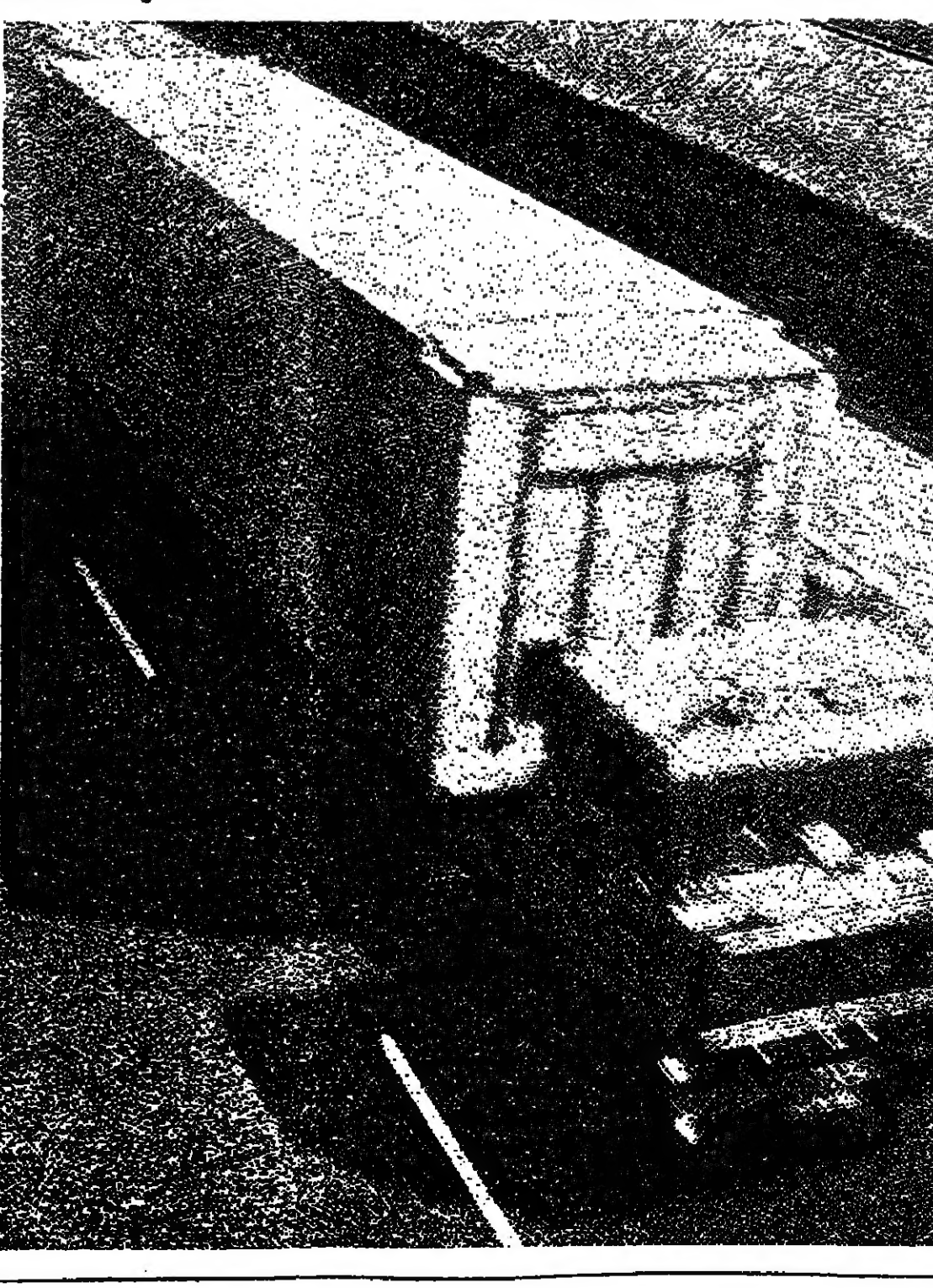
If you are a motorist, you will probably have driven along a motorway or highway constructed by Cubitts. Roads, bridges, by-passes, under-passes, flyovers, roundabouts... Cubitts build them all, at home and overseas. Just as the 1.8 miles of dual three lane highway at the London end of the M3, with its half mile elevated structure two flyovers, river bridge and two footbridges, is Cubitts built, so are hundreds of miles of highway in Nigeria.

Cubitts' construction capacity is universal. Road building is only one aspect of the company's huge construction programme. At the same time, it is busy with housing developments, schools, universities, hospitals, office blocks, factories, industrial plants, water and sewage works, air terminals, power stations and reservoirs.

With major contracts completed, nearing completion, or just beginning, in New Zealand, West Indies, Africa, the Middle East and in the United Kingdom, Cubitts continue to expand in the contracting world.



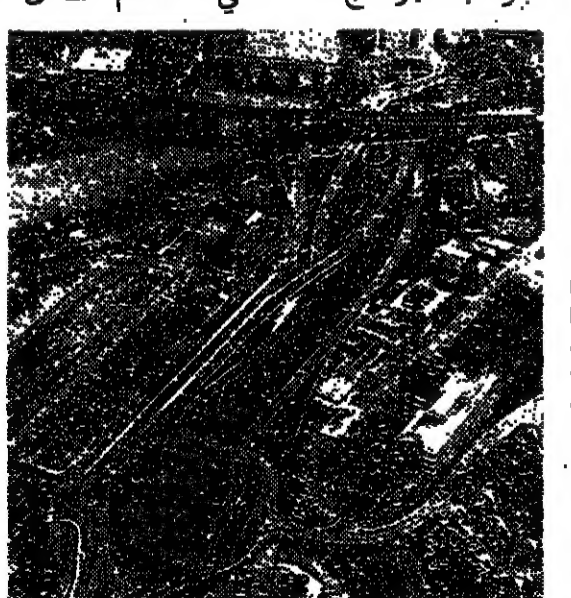
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سواء كنت سائقاً أو راكباً فلا بد أن تكون قد مررت بأحد الطرق العامة أو طرق الاوتستراد التي تم انشاؤها بمعرفة شركة كيوبيتس وسترى أيضاً طرقاً وكبارى وممرات جانبية وتحتية وممرات فوقية وميادين... وهذه كلها قد شيدتها كيوبيتس، سواء داخل المملكة المتحدة أو فيما وراء البحار. وكما أن نهاية الطريق هي ناحية لندن بما تتضمنه من ثلاثة ممرات فوقية وجسر على النهر المسمى وجسرين للشاة ودار حاجز يمل طوله الى ميلين ونصف ميل تقريباً كانت كلها من عمل كيوبيتس، فكذا كانت مشاتل الاميال من الطرق العامة التي تم شقيها في نيجيريا.

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THE GOVERNMENT OF THE STATE OF BAHIA

State Secretariat of Mines and Energy
Co-ordinating Commission on Works of Port of Aratu-Copar Bulk Liquids Terminal

International Public Tender No. 01/76-COPAR

Announcement

The President of the Tenders Committee, by designation of instruction 33/76, publicly informs the interested parties that the final date for receipt of proposals relative to the above tender (01/76-COPAR) has been extended to June 3rd, 1976, at the previously published address and hour. The tender refers to the contracting of manufacturing, delivery and erection of loading arms for moving bulk liquids through the Port of Aratu. The President informs the minimum capital requirement for participants in the bidding has been altered to CR\$ 12,500,000.00 (twelve million five hundred thousand cruzeiros). The conditions of and alterations to the invitation continue at the disposal of the interested parties at the offices of COPAR, Port of Aratu, Candeias, Bahia.

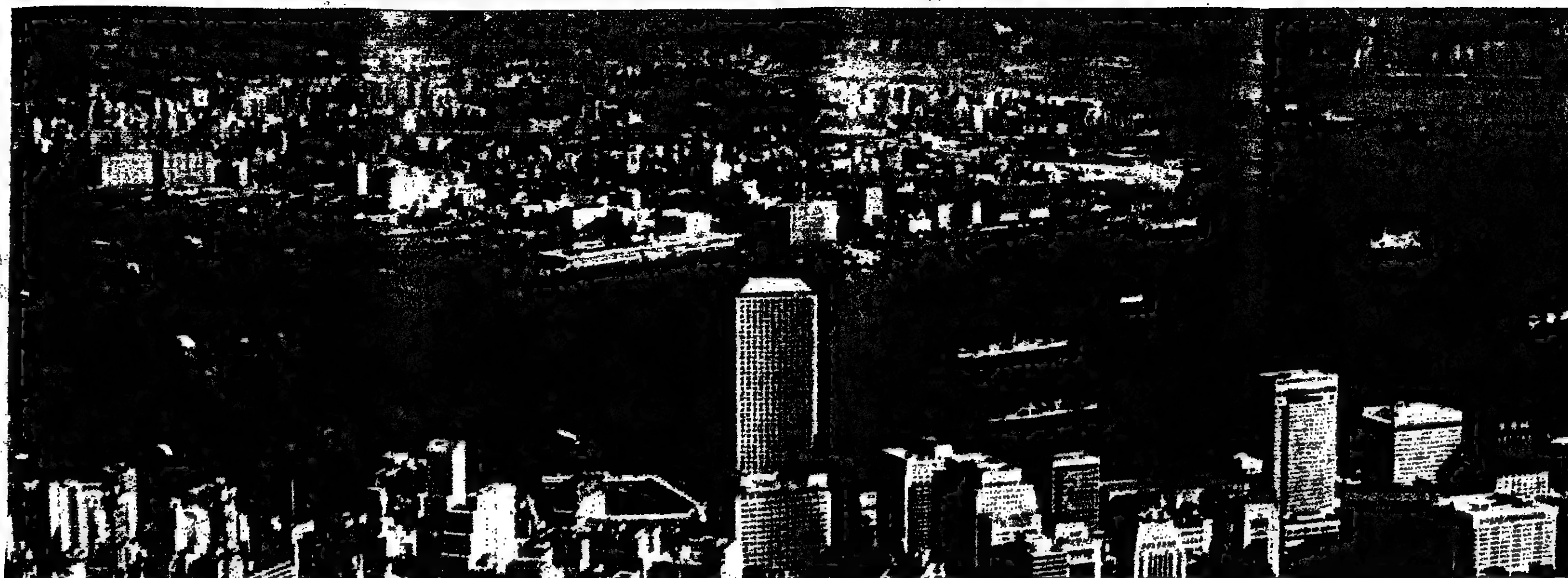
The interested parties may obtain further information, if required, directly from COPAR or through Catech-Companhia Auxiliar de Empresas Eletricas Brasileiras—Avenida Rio Branco, 133—11th floor, Rio de Janeiro—RJ.

THE COMMITTEE

the

FINANCIAL TIMES SURVEY

HONG KONG



HONGKONG

now - a dynamic link in our international chain of operations

ime Darby knows as much as anyone about doing business for the world in South-east Asia — and more than most about doing business with the world from South-east Asia.

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ut more recently we've been broadening our horizons and expanding our sphere of operations.



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e've consolidated. We've internationalised. We've verified.

ditionally, Malaysia and Singapore have been the base of our operations; and plantation management, heavy equipment dealing and general trading have been the keys to our development.

it long before ASEAN was the important economic grouping of nations that it's now becoming we recognised the wealth, strength and potential of the four countries of South-east Asia. We made it our business to play a part in their development. We moved into distribution, engineering, food and beverage processing and production, manufacturing, insurance and shipping, and virtually every aspect of doing.

What's more, we now have significant interests in Europe and developing interests in North America. Our fertilizer and commodities trading operations are worldwide. And we're still expanding.

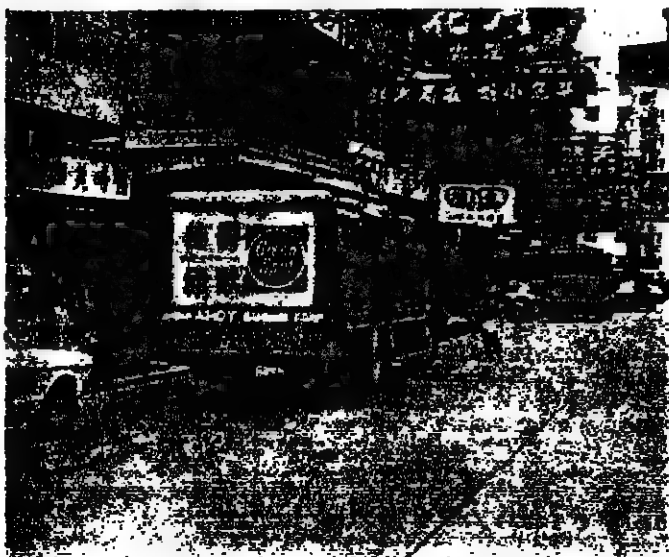
We've taken a strong interest in Hongkong.

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The China Engineers Limited, established in 1928, is a leading supplier of heavy engineering equipment, machinery and machine tools — serving every major Hongkong industry. Its Mining and Explosives Division is Hongkong's main importer of explosives,

and the acknowledged local authority on their handling and use. The company is also one of the largest electrical contractors in both the industrial and the commercial sectors.

C.E. Construction Equipment Limited handles the Caterpillar dealership, which was formerly a divisional responsibility of The China Engineers Limited. Capitalised at US\$4 million, and with complete sales, service and parts facilities, this company is arguably the biggest supplier of construction and earthmoving equipment in Hongkong.

In a word, then, China Engineers is engineering. But it's a good deal more besides.

Other Group companies hold the Hongkong agencies for Alfa Romeo and BMW cars and Ford and Mitsubishi automobiles and commercial vehicles, and are leaders in specialised vehicle engineering applications. Through The Amoy Canning Corporation (Hongkong) Limited, we're involved in food and beverage processing and production — and packaging. And we're now building strongly on our established agency trading base.



"Reshaping the face of Hongkong. China Engineers has long experience in providing and maintaining the world's best heavy equipment for some of Hongkong's most important development projects."

We are among Hongkong's larger importers of rice. And we're active in shipping, property, insurance and finance — in no small way.

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HONG KONG II

The Colony is recovering quickly from the recession and inflation has been kept at a minimal level. The Government is trying to tackle expensive social problems like housing and education without endangering rapid economic growth. In the background there are delicate questions of local political expression and relations with Peking.

Boom economy masks social problems

HONG KONG has done as well as any of its neighbours and competitors in East Asia during the first part of 1976—at least if one sticks to strictly economic criteria. Its exports have recovered sharply since the beginning of the year. There is full employment or virtually full employment in the colony, but prices are not yet starting to rise much, after a year in which the consumer cost of living index increased by a mere 1 per cent. The air of bustle which visitors to Hong Kong always notice, even in a recession, has been more marked than ever this spring and the affluence one sees in some parts of the colony by contrast with a good deal of squalor in other parts, is as striking as in Tokyo.

Events since the beginning of the year, in short, seem to underline the truth of what Hong Kong's own officials and businessmen say about its economy. Hong Kong reacts very quickly indeed to trends in world trade, particularly if they are in the textile industry, which still accounts for over 50 per cent of the colony's exports (if one includes the all important sector of clothing). Textiles and clothing were one of the first sectors of international trade to start recovering last year as the world began to emerge from recession. The effect seems to have been to give Hong Kong's economy a sharp V-shaped recovery pattern rather than the long drawn out "flat-bottomed" recovery which has been a cause of delayed expectations and considerable frustration in other Asian countries such as Japan.

The point about sensitivity to external events also applies the other way round of course. In the early part of last year Hong Kong's exports were running 15 per cent below the levels of a year earlier, and since exports account for about 90 per cent of gross domestic

product, the impact on the economy was drastic. Unemployment was probably over 10 per cent in the early part of the year (it was still 8.1 per cent in September when the Government collected statistics on the subject). Wages were actually down in money terms (as well as in real terms) but prices are not yet starting to rise much, after a year in which the consumer cost of living index increased by a mere 1 per cent.

The 1975 budget was the tightest Hong Kong had seen in years because the Government's budget revenue, like almost every other aspect of the colony's economy, is directly related to how well exports are doing. The result was that some important programmes, such as housing, had to be slowed down, with targets for completion in some cases put off by a year or 18 months.

The one big benefit to Hong Kong from the recession and the slackening of demand in most sectors was that 1976 turned out to be the ideal year for getting the ambitious but long delayed mass transit project off the ground. Costs in the construction industry were showing a fall of about 15 per cent from a year earlier, when, in the middle of 1975, the Mass Transit Railway Corporation awarded the bulk of its civil engineering construction contracts.

Strains

The reason why last year's recession was a highly significant event for Hong Kong—and is still significant even though it now belongs to the past—is that it put to the test the Colony's ability to resist social and economic strains at a time when there has been considerable doubt about its ability to do precisely that. It is only fair to say that Hong Kong and its 4m. people came through the test with flying colours.

There were few strikes dur-

ing the year, though perhaps in a year when most people were worrying about the security of their jobs one would hardly expect strikes. Work was successfully shared out in most major industries so as to minimise actual lay-offs. The law and order situation, which had been a growing problem in Hong Kong during the early part of the 1970s, got no worse in 1975. Indeed, according to the Colonial Secretary's office, the crime rate began to show signs of falling slightly as the year drew to a close.

But if Hong Kong deserves good marks for surviving the recession unscathed, the moral is not that everything in the Colony is just as it should be. The crime problem is serious even if it is not getting any worse. There are also the better publicised and more widely understood shortcomings in fields such as housing and education. The effect of last year's successful tackling of recession and this year's successful emergence from it has been to make the Government more rather than less anxious to cure these various evils.

The approach of the Colonial administration under the present Governor, Sir Murray MacLehose, to dealing with Hong Kong's more intractable problems has been two pronged. The Governor has tried hard, and even his critics would say successfully, to establish contact with the ordinary people of Hong Kong, both by direct personal interchange and by setting up institutions such as district committees or (on a Colony-wide level) machinery for listening to and handling individual grievances. This machinery clearly has a very special role to play in a community where the basic organs of government are appointed rather than elected—and where they continue to be appointed, as is the case with Hong Kong's

Legislative Council, from the top strata of society rather than from all levels.

The absence of direct political expression in Hong Kong could become more of a problem in future as a larger and larger percentage of the Colony's population consists of those born in Hong Kong rather than of refugees from China. Setting up lines of communication with an increasingly articulate and aware population, however, represents only half of what the Hong Kong Government considers it needs to do to construct a stable society.

Quality

The other half of the task is to improve the quality of life, especially in areas where it lags well behind what is available in some other Asian countries. These areas include housing, education and public transport (all of which are considered separately in articles elsewhere in this survey). Even in a community of only 4.5m. people it can be very expensive indeed to carry through crash programmes of reform and reconstruction in major fields of social welfare where relatively little has been done in the past.

The trick which Hong Kong has to perform over the next few years is to catch up in its weak areas without sacrificing the existing formula for prosperity. This is based on rapid growth, a low tax rate (still only 15 per cent on individual income) and an essentially open and free-wheeling economic system. Hong Kong will probably have to raise its taxes somewhat to pay for its development programmes, although the Chinese business community, which is strongly represented on the Legislative Council, will not take to this too readily. It cannot afford, however, to become a community with a high government "take" from the national

income. To do this would be to destroy the whole basis on which Hong Kong attracts foreign investment to itself, the basis on which it encourages its own local business community to go on reinvesting in Hong Kong rather than elsewhere.

If Hong Kong performs the balancing act with success, its future as a small-scale industrial producer and as a regional operating base for foreign business should be very promising. Hong Kong has a number of points which make it attractive as a site for the establishment of regional business headquarters. Its communications are superb (although Kai Tak Airport is beginning to be slightly overloaded these days). It is geographically central in East Asia and it has a sophisticated and completely untrammelled banking and financial system.

British merchant banks interested in Asian investments from Japan down to South East Asia have tended increasingly to do business out of Hong Kong rather than London because the absence of time differences between Hong Kong and other Asian centres makes possible minute-to-minute decisions which could not be made from the other side of the world. Japanese trading companies have started to move their

departments from Osaka or Tokyo to Hong Kong because the Colony is conveniently sited near the new textile producing countries in South East Asia. U.S. manufacturers have in two recent cases (Dow Chemical and Outboard Marine) chosen Hong Kong as an offshore manufacturing base because of its low taxes, relatively cheap labour and good communications.

The other factors governing the future of Hong Kong are the attitudes of Britain, the "mother country," and of China on whose territory Hong Kong is located. It is very clear indeed that interest in Hong Kong in the U.K. and understanding of the Colony's economic situation has been tending to wane recently. Hong Kong is hardly the sort of place that appeals to radically minded Labour MPs. Partly as a result of this its welfare services have been the subject, this year, of minutely critical review by the Fabian Society.

The weakening of economic ties between Colony and mother country, notably when it became impossible a year or two ago for Britain to continue to insist that Hong Kong keep its reserves in London, has also not helped to improve the relationship. But it should be obvious that Britain will be attempting first step towards establishing some direct role for Peking in Hong Kong if the Colony

appears to be both economically flourishing and socially stable. Thus the problem of U.K.-Hong Kong relations may in the end come back to what happens inside the Colony itself.

The same will be true up to a point of relations with China. China values Hong Kong partly because it is a rich source of foreign exchange and partly because it provides a useful contact point with foreign businessmen and others who cannot be conveniently located within China itself.

Reversion

If the colony continues to flourish Peking will probably continue to put off the day when reversion is felt to be necessary. One might go further and say that it would be characteristic for China to seek the reversion of Hong Kong by a series of gradual stages (as it appears to be doing with Macao) rather than to attempt to take over at a single stroke. The Chinese proposal to establish a liaison office in Hong Kong, which has been raised at intervals during the past 20 years (most recently during Mr. Anthony Crosland's recent visit to Peking) and as regularly turned down by Britain, could be seen as an attempted first step towards establishing some direct role for Peking in the running of Hong

BASIC STATISTICS	
Area	400 square miles
Population	4.2m
TRADE 1974	
Imports	\$2,834m
Exports	\$2,823m
Imports from U.K.	\$158m
Exports to U.K.	\$252m
TRADE 1975	
Imports from U.K.	\$197m
Exports to U.K.	\$307m
Currency, Hong Kong Dollar	£1=\$2.82

Kong affairs. The proposal could be raised again, perhaps a little more forcibly, when the time comes for Britain to China to test out each other's views on the status of the colony after the expiry of the 99 years' lease in 1997.

Hong Kong's future remains obscure, as it must do in a situation where none of the parties involved can afford to put their cards on the table. It is unlikely to be one fraught with crises or with sudden abrupt changes of status. The colony sorts out its internal problems successfully or not else is likely to intervene to undo the good work.

Charles Smith
Far East Editor

Trade is Hong Kong's life-blood: the Colony must both import raw materials and export manufactured products to survive. In recent years it has shown a remarkable ability to succeed at this and to adapt to wide variations in world economic conditions.

Trade relations

JUST OVER 90 per cent of such as the cloths and yarns which the textile industry produces are exported in 1974 (there is no reason to think the 1975 percentage would be much different) and there is not a single major industry, with the exception of tourism, which is not overwhelmingly concerned with making things for overseas markets.

The effect of this on the way the Hong Kong economy works and on the trade policies the Colony is obliged to follow are marked, not to say remarkable. One of the most important is that the money supply inside Hong Kong and consequently the general level of demand within the Colony, is very largely determined by the state of overseas trade (though invisibles also have a part to play). Another interlocking point is that Hong Kong must remain competitive in world markets, and world markets must remain reasonably receptive if it is to survive economically. There is no scope in Hong Kong, or virtually none, for generating growth by stimulating internal demand as there is in countries which consume (and produce) more of their own products and basic necessities.

The heavy dependence on exports gives the Hong Kong economy a built-in regulator which must sometimes be the envy of countries with more complex—and thus more unmanageable—economies. It also means, however, that if anything does go seriously wrong with the Colony's overseas markets, as happened during the 1974-75 recession, the effect on the domestic economy is liable to be extreme. Hong Kong had an unemployment rate of probably over 10 per cent at the low point of the 1975 recession, although Government figures on this lag so far behind that no one realised the full gravity of the situation until after it was over.

There is another factor about Hong Kong's trade which puts the country in a substantially different position from other Asian industrial states, with the possible exception of Japan. This is that Hong Kong must import to survive and must buy from the cheapest supplier without respect for political ties, the desirability of balancing trade with individual partners, or the occasional cries for protection from a domestic industry. Hong Kong has no indigenous resources except building stone, fish and water (and even in the latter it is only 77 per cent self sufficient). Its economy functions by the creation of added value to imported raw materials

textile and garment exports are now under quota or roughly double the ratio of ten years ago. Hong Kong, of course, has to work within the framework of the International Multi-Fibre Agreement and beyond that is obliged to rely on its own or the British Government's powers of persuasion to get reasonable quota treatment. There is a limit to what can be achieved in this way, but it could be argued that quotas are less damaging to the interests of Hong Kong than they are to the really low cost far eastern textile producers such as Korea and Taiwan.

The statistical behaviour of Hong Kong's trade during and after the post-oil crisis recession follows precisely the pattern that one would expect given the basic characteristics outlined above. Exports began to fall in the second half of 1974, reflecting world-wide recession, and continued to be down in the first half of 1975. In quantity terms there was a 14 per cent shrinkage in the latter half of 1974 followed by a modest decline of 6 per cent in the first half of last year. In terms of value, exports in the first half of last year were down by no less than 15 per cent. But the picture began to brighten rapidly from the middle of the year onwards, and Hong Kong finished 1975 with exports down only 2 per cent by value on the previous year. By early 1976 exports were moving at a spectacular pace. The January figure was up 36 per cent on January, 1975 and in February exports were up 37 per cent over the same month of the previous year.

The entire pattern reflects the fact that demand for textiles picked up in major world markets sooner than for most other products towards the end of the recession. There have been special factors, however, such as political problems in Portugal, which diverted some of the EEC's textile imports away from that country to Hong Kong in the early months of 1975. The phasing out of these factors plus the fact the textile export boom itself could lose some of its impetus in the next few months may tend to slow down Hong Kong's export growth as the year goes on.

While this is happening imports, which fell last year by more than exports, may now tend to pick up rather faster. Hong Kong's industry seems still to be understocked of basic raw materials and will need to replenish stocks. The visible trade deficit which is a regular feature of the

colony's economy will thus probably grow as the year continues but not enough to cause any serious headaches. Hong Kong's invisible earnings (no quantifiable because the absence of exchange control means there is no way of checking how much money flows in and out of the colony) should, as usual, be enough to maintain a balance.

But what about the longer term? The colony will have a more rapidly rising labour force in the next few years than it has experienced recently for reasons mainly connected with a bulge in the age groups entering the labour market. The annual increase in the labour force is about 2.3 per cent and could rise temporarily to over 4 per cent a year as a result of "bulge" factors. To employ it and increase productivity and personal income at roughly the same rate as in the recent past the gross domestic product would need to grow at an average rate of close to 7 per cent in the next few years compared with the average 8.2 per cent in the past ten years (which course include the two uncal recession years of 1974 and 1975).

Stability

The Government is reasonably sure that it can generate the investment and maintain the basic stability needed to provide a foundation for growth. But in the end question comes back to export. If world trade grows much more slowly over the next ten years than it did in the ten years to 1973, it will be extremely hard for Hong Kong to beat previous performance failing discovery by local industry a "miracle" sector for export which would give the color significant lead over its A competitors.

Hong Kong is notorious for adaptability both to wide variations in world economic conditions and to changing conditions in particular industries. It ridden on various booms in past (such as the spectacular ill-fated wig boom) and got of most of them without aster. There is one thing, however, that Hong Kong cannot diversify out of and that is national trade. In the resort, more than any country in Asia, Hong Kong is at the mercy of its own customers.

Charles Smith

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Hong Kong enjoys a large trade surplus with the EEC. Textile sales, however, still give rise to problems which are only slowly being ironed out

EEC trade

IT IS no exaggeration to say that many Hong Kong manufacturers were saved from total collapse last year by one single export market. And it saved tens of thousands of jobs at a time when unemployment was, albeit quite briefly, sufficient to suggest a threat to social order in Hong Kong. That market was West Germany. In the first few months of 1975 exports to the U.S., Hong Kong's largest market, collapsed dramatically, particularly in textiles and toys, with sales some 30 per cent. below the previous year. But at the same time exports to West Germany continued to rise remarkably strongly. The rate of increase eased later in the year, but by then industry in general was recovering so the German market was a less necessary life saver than it had earlier been. Overall for the year domestic exports to Germany rose 17 per cent. to \$HK2.5bn making it the Colony's second largest market, surpassing the U.K. Not that sales to the U.K. did badly. Over the year as a whole they increased by a fractional \$HK8m. to \$HK2.8bn., but again they had been very steady in the first half of the year when non-European markets were so weak.

The other seven EEC destinations are relatively unimportant for Hong Kong adding up to only \$HK1.2bn. in domestic exports last year, with the Netherlands in the lead at \$HK486m. However, Hong Kong has strong hopes that it can diversify its European sales, particularly in textiles and particularly to the two largest and most protectionist inclined of the other seven—France and Italy. Last year combined exports to these two countries totalled a mere \$HK373m. Hong Kong had big difficulties with them, as also with Belgium and Luxembourg. The hopes for better performance in future lie heavily with the new bilateral textile quota arrangement with the EEC reached last July. This is the first with the EEC under the terms of the Multifibre Agree-

ment reached under GATT auspices, and which allows greater flexibility between textile categories and more scope for bilateral discussion of problems in place of unilateral fiat by the importing countries. The agreement with the EEC was considered satisfactory from Hong Kong's point of view, given that it was negotiated at a time when world recession was at its worst. It brings within the quota scope a higher proportion of Hong Kong's textile exports than before—now about 85 per cent. are restricted. But it allows an average increase of around 6 per cent. (by volume) a year, though the larger increases are not necessarily in the most favourable categories from Hong Kong's point of view. What is better for Hong Kong is that the EEC has shared out the increases to its own members in such a way that the "burden" will fall most on those countries, notably France, which at present buy little. This will allow Hong Kong to diversify. Hong Kong's negotiators have paid tribute to the more liberal attitude adopted by France, which in the past has been particularly protectionist.

The agreement has run into some snags, notably over the size of Hong Kong's sales last year before the agreement was signed. These have been ironed out, though Hong Kong had to "borrow" some quota from 1975 to meet 1976 orders, thus reducing potential sales this year. However, the problem was not as great as was made out at the time. In some ways the quota system helps Hong Kong as it keeps down access to the EEC for competitors like Taiwan and Korea, though this can hardly be regarded as beneficial to Hong Kong in the longer term. What is beneficial is the encouragement that volume quotas give to manufacturers to trade up into higher value added products. An outstanding problem with the EEC remains: the exclusion

of Hong Kong's textiles from the EEC's Generalised Scheme of Preference (GSP) for developing countries. The Colony wants inclusion for textiles (other items qualify) not so much because it cannot overcome tariff barriers, but because the system encourages importers to order from countries which are in the scheme in the hope that they will get products in under the scheme (which operates on a first come first serve basis) and thus raise their margins.

Sectoral

A fact-finding team from the EEC Commission visited Hong Kong in March and left expressing the view that there was a better than even chance of Hong Kong textiles being included in the EEC's GSP for \$HK4.4bn., at a time when total

Japan is a vital source of raw materials for processing by Hong Kong industry. Trade in the other direction has not yet developed its full potential

RELATIONS BETWEEN Hong Kong and Japan are lopsided but mutually profitable. Japan exports about \$HK7bn. worth of goods a year to Hong Kong and imports only about \$HK1bn. in return. But Hong Kong does not worry unduly about the gap although it would naturally like to develop Japan into a larger export market. What it does tend to worry about is the ability, and perhaps the determination of the Japanese, to ensure a regular supply of the vital raw materials needed by its textile and plastics industries. Japan has a dominant position as supplier of these items all the more since some western companies, including ICI, by the Japanese tourists who dropped out of the Hong Kong

1977. But the matter is up to the Council of Ministers, who may be swayed more by sectoral pressures than by the theoretical arguments of the Commission. With clothing exports restricted one way or another, many exporters—often resident buyers from Europe—are pushing other products, ranging from toys to less familiar Hong Kong products such as metalware, electrical apparatus and travel goods. For example, while clothing exports to West Germany in the first two months of 1976 were only 15 per cent. above those of a year ago (by value) total exports to Germany were up 31 per cent.

The EEC's sales to Hong Kong last year were depressed. The Colony's imports from the region fell 8.3 per cent. to \$HK4.4bn., at a time when total

imports fell only 2 per cent. to \$HK33.5bn. However, not too much significance should be read into this. Demand for capital goods, for non-essential consumer items and transport equipment in the Colony were all reduced by the recession last year, and thus, European goods were hit harder than countries, like China and Japan, which supply more in the way of food, raw materials and semi-manufactures such as yarn and cloth. EEC sales should recover strongly this year. West Germany has had a 34 per cent. rise in the first two months, though the U.K. is lagging badly with a further fall of 7 per cent. from a year ago—an appalling showing considering the revival in Hong Kong's imports and the fact that sterling has dropped very

Japan trade

which were to have taken part in the ill-fated Japanese package contract have since secured individual contracts for carrying out parts of the project. Others have gone to Europe or have been awarded within Hong Kong itself.

As an exporter to Hong Kong, Japan also figures in the capital goods and construction field, although its most recent experience in this area was an unfortunate one. The Japanese made an ambitious attempt to secure the master-contract for the Hong Kong mass transit railway scheme at the beginning of 1974 but soon found that they could not stay within the ceiling price of \$HK3,000m. and, withdrew somewhat ignominiously in December of that year. It is a tribute to Japanese resilience, and perhaps to Hong Kong realism, that a number of the companies

land and a good deal less than it sold to Canada and Australia. According to Japanese trading companies this low figure is the result of Japan having its own clothing industry which caters specifically to Japanese tastes and intense competition from other countries such as Taiwan and Korea. A third reason could be that Japan's clothing and textile imports are in the hands of a very few major concerns which have chosen until recently for reasons of their own to concentrate purchases elsewhere than in Hong Kong.

The Colony has been more successful in developing the Japanese market for toys where it accounts for 36 per cent. of Japanese imports, artificial flowers where it has a 79 per cent. market share, and travel goods where it has a 21 per cent. share. These items are, however, among the surviving total of seven exceptions made by Japan in the extension of tariff preference to Hong Kong under its generalised system of preference (GSP). The Japanese say that Hong Kong is "too competitive" in the fields concerned and that access to the GSP would create serious problems of competition for Japanese industry. Japan made 96 exceptions when it first extended the GSP to Hong Kong in 1973 but the remaining seven are, of course, among the most important.

Hong Kong has not made a fuss about the trade imbalance with Japan because it needs Japan's industrial raw materials more than it needs the Japanese market for its exports and because Japan is useful in other ways. The Japanese are the biggest tourist spenders in Hong Kong providing just under 30 per cent. of the \$HK2.5bn. earned by tourism last year. As an investor in Hong Kong, Japan came next after the U.S., with a cumulative total valued at rather more than \$HK1bn. Japanese companies have tended to concentrate on investments aimed at Hong Kong's domestic market, unlike American companies which have regarded the Colony as a good offshore manufacturing base for exporting to third countries.

A typical "traditional" Japanese investment plant is the YKK zip fastener plant which supplies 80 per cent. of Hong Kong's market and which is now being extended. However, there are signs that the Japanese may be growing more imaginative in their investment policy. A major electrical company is said to be planning a Hong Kong plant for

white goods, like refrigerators and washing machines, which would be geared to exports rather than the local market. Another interesting move, which is already in progress, is the transfer by at least one Japanese general company of its entire textile trading section from Japan to Hong Kong. The company concerned, C. Itoh, is making the move because it thinks Far East trade in textiles will increasingly be based in South-East Asia, and Hong Kong is seen as a natural regional headquarters for the area.

While the Japanese are looking to Hong Kong as a regional manufacturing and trading base, Hong Kong's own businessmen are beginning to see Japan as an attractive place to deposit some of their own liquid funds. The colony has become a factor in the Tokyo Stock Market recently as for example when overseas Chinese buyers acquired a large portion of the equity of Kao Soap. There have also been times when Hong Kong buying has taken up a large portion of the foreign investors' allocation of Japanese short-term Treasury bills.

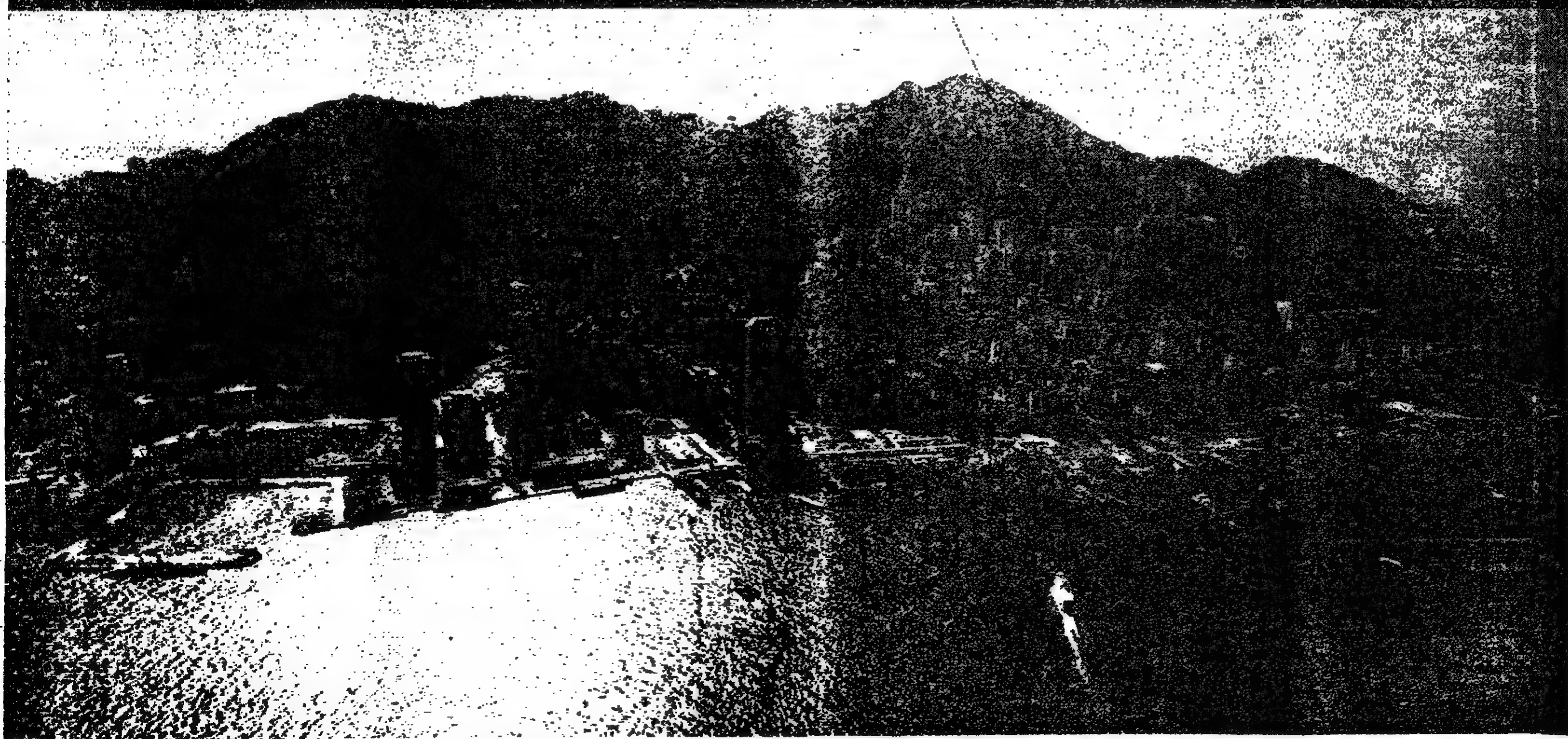
Unable

Japanese securities houses, which handle sales of these bills, are usually unable to identify the true source of buying orders which come from Hong Kong. The origin of orders may sometimes be European banks or investment houses who prefer to place orders through their Hong Kong branches rather than direct from headquarters. This does not alter the fact that Hong Kong is joining the ranks of the foreign countries whose activities have to be reckoned with in the Tokyo securities markets.

What Hong Kong is not doing is putting any significant portion of its official reserves into yen, only about 1.5 per cent. according to official figures despite the fact that the Colony has moved most of its money out of sterling. In this respect Hong Kong is behind Asian countries, such as Singapore and the Philippines who are responding to Japanese encouragement to shift part of their reserves into yen. Hong Kong is not, evidently, going to become part of a yen-zone if such a thing ever materialises in Asia. But its links with Japan are going to go on growing. They will grow even more if the Japanese make up their minds—as they seem to be doing—that Hong Kong is going to be there until well into the 21st century.

C.S.

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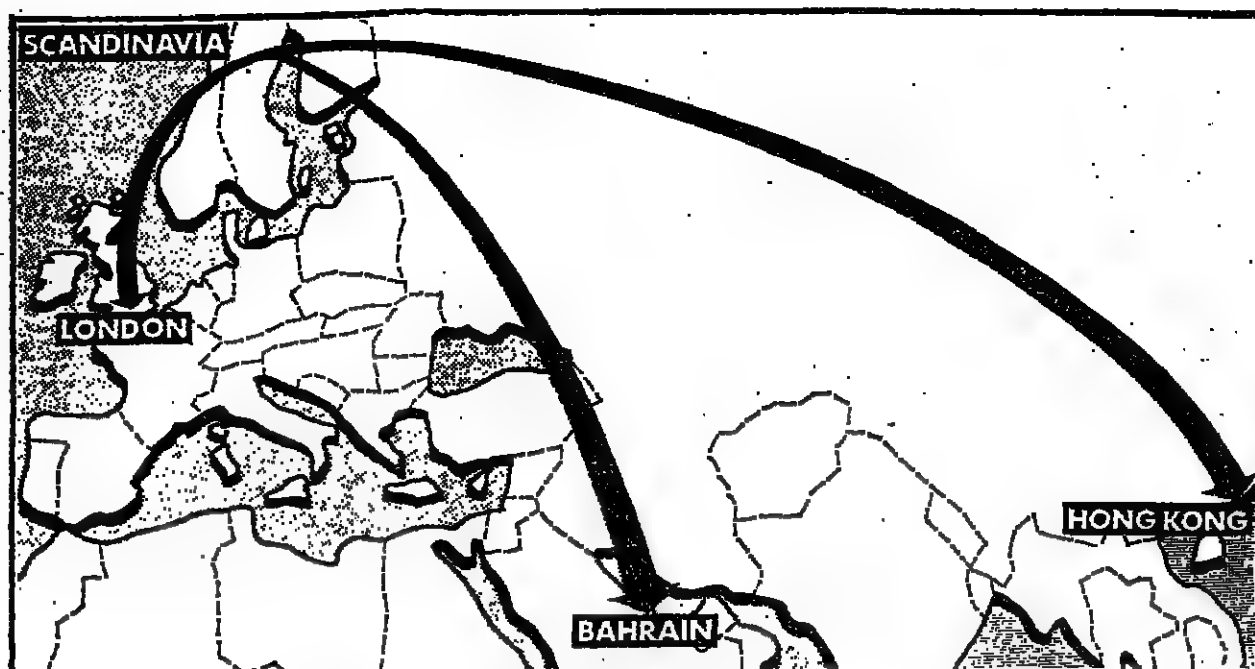
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HONG KONG IV

China retains an economic and political interest in maintaining Hong Kong's status as a colony. But evidence is mounting of the weakening relationship between Hong Kong and Britain, whose lease on the New Territories runs out in 1998.

Britain and China

HONG KONG could not survive if it failed to remain economically prosperous. Neither could it survive if either China or the U.K. lost interest in maintaining the present status quo or something like it. It is therefore important for anyone considering a long term commitment to Hong Kong to form a view on the question of just how interested the Chinese are in keeping Hong Kong going and just how long the U.K. will be likely to go on playing the, by now, rather incongruous role of imperial power. There is plenty of evidence on both questions although there are some doubtful aspects too.

The Chinese Communist Party, ever since World War II, has tended to take the line that Hong Kong is Chinese territory, which in the normal course of events would one day revert to the rule of Peking—but not for quite a long time. Phrases like "when the time is ripe" have been used in Peking statements on Hong Kong's status more than once since 1949. Somewhat more aggressive sounding statements on Hong Kong were issued at the height of the Cultural Revolution when the Colony was contending with Communist-inspired riots, which turned out afterwards, however, to have been masterminded by the provincial authorities in Canton rather than by the Central Government in Peking. The mood since the Cultural Revolution has been more relaxed and does not appear to have changed since the start of the present left-leaning leadership changes in Peking. The Chinese are being careful not to tie themselves down but it is no secret that Hong Kong is useful to them in a number of ways.

China earns about \$HK\$bn. (about £800m.) a year from Hong Kong in net terms as a result of its favourable visible trade balance with the Colony, the profits made by Communist-owned and operated enterprises there, and remittances from overseas Chinese which pass through Hong Kong. Spokesmen for the People's Republic normally disclaim any strictly financial motives for letting the Colony continue to exist. But the loss of this revenue would undoubtedly create problems for the Chinese balance of payments which usually features a substantial visible deficit with trade partners other than Hong Kong. The economic importance of the Colony to China has certainly not been getting any less in the recent past. The Chinese put up their food prices fairly sharply about three years ago and have since been manipulating them more frequently in line with the state of the market. The money China earns in Hong Kong used to be converted into sterling (one reason why a figure for Peking's earnings has normally been readily available), and transferred to London where the London branch of the Bank of China then swapped it into other currencies that might be needed. Recently China has tended to skip the sterling conversion and move straight from Hong Kong dollars into other currencies of its choice without moving its money out of the Colony.

The non-financial aspect of China's interest in Hong Kong is also important though not easy to define. It is sometimes said that China needs a "listening post" in the outside world just as the West needs a place from which to watch China, and that Hong Kong serves both these functions. Whether or not this is true, Hong Kong certainly provides a convenient offshore location for foreigners with whom the Chinese want to do business. The Chinese have shown themselves happy to have all nationalities represented in Hong Kong, with the exception of the Russians who are rigorously excluded as one of the unspoken rules governing Britain's administration, and the Chinese Nationalists from South China Morning Post, an associate company of the Hong Kong and Shanghai Bank.

Important

If Hong Kong's importance to China is growing, or at least not getting any less, it could be argued that the relationship with Britain is showing signs of dilapidation. The U.K., and Philip Haddon-Cave, said two the local Hong Kong, British administration, remained about the U.K.-Hong Kong relationship is that economic ties have weakened. Britain's share of the Hong Kong import market shrank from 12 per cent in 1955 to 5.3 per cent last year as the Japanese and others have moved in. It will probably shrink more as a result of the removal of Commonwealth Preference on imports from the U.K., including cars, from the beginning of this year. Britain's only chance at the moment of regaining its lost trade would seem to be to fight its way back into the market for industrial raw materials which is dominated by the Japanese. The proportion of Hong Kong reserves kept in London, which used to be another vital tie between the Colony and the Mother Country, has shrunk still more drastically. It was around 90 per cent until the autumn of 1971 but had fallen to 70 per cent by the end of 1974 and by now may be roughly one-third. The U.K. has, of course, saved itself money by negotiating the defence agreement last year in a way which shifted a large part of the financial burden to Hong Kong. These changes have been carried through smoothly enough but the net result may have been to strengthen the impression that London and Hong Kong are gradually drifting apart.

The gradual weakening of the British role might not matter very much if there were no other problems on the horizon. But there is one problem which obstinately refuses to go away—even though a number of people in Hong Kong like to deny that it exists. This is the problem of what to do about the expiry of the British lease

on the New Territories, equivalent to about 90 per cent of the territory of Hong Kong, 1998. The lease treaty regarded by China as one of the "unequal" treaties forced on the former Chinese Empire. But the Chinese have also stressed that "unequal" does not necessarily mean "invalid," so there is evidence some talking to be done. T. will probably have raised the issue with Peking some time in the next few years before business confidence in the Colony starts to erode by fears about the post-1997 situation. Before doing it will have to decide how sees the future itself.

Welfare

A Fabian Pamphlet "Hong Kong—Britain's Responsibility" which was published early this year tackled this question by arguing that the U.K. should set up a welfare state in Hong Kong somewhat along the lines of the U.K.'s own welfare state before the territory back to China. Hong Kong officials tend to feel that conditions in Hong Kong are "different" and that their primary responsibility is to maintain overall economic prosperity, which is also taken to mean a low rate of tax, because without that Hong Kong would almost certainly cease to exist. The arguments and counter-arguments have not damaged the confidence of anyone in Hong Kong's future very seriously. This does not alter the fact that unease or uncertainty in Britain about the Hong Kong relationship does represent a genuine problem.

One thing which is certain

The Hong Kong Government is trying to widen the scope of taxation. Ambitious public works plans have created a need for greater revenue and have led to Government borrowing, a new departure.

Fiscal system

HONG KONG'S FISCAL system has never had much time for the concept of equity or social engineering. It exists to raise money as readily and cheaply as possible without discouraging investment, compromising the Colony's free port status or adding unduly to manufacturing and commercial input costs. Its critics might claim that it has not even performed that limited task with much efficiency, arguing that evasion particularly of direct taxes has long been very widespread.

cently a rather more considered approach to the whole matter of tax seems to have taken hold of the Government. The philosophy has not changed—despite what some of the more panicky businessmen and diehard opponents of tax of any kind may say. Visibly there have been much more rigorous attempts to clamp down on evasion. Tenants' rates are being checked to find out their owners and whether or not they have been paying property tax. The total number of taxpayers has risen sharply, a fact only partly attributable to rises in nominal incomes bringing more people into tax range.

Secondly, an Inland Revenue Ordinance Review Committee has been set up to look at the system of direct taxation in the Colony with a view to making it more productive of revenue at any given tax rate. It has been told to report with despatch. The Committee has aroused considerable nervousness in some business circles, and has given rise to some shrill outburst from such establishment organs as the South China Morning Post, an associate company of the Hong Kong and Shanghai Bank.

Specifically, only three classes of business are likely to be worried by the Committee. One is banking. It is generally believed that local banks are paying only about 11 per cent. tax on profits effectively earned in the Colony. This is because many transactions are routed through offshore accounts and thus become overseas income, which is not subject to tax in the Colony. The Financial Secretary, Mr. Philip Haddon-Cave, said two years ago that he wanted to do

something about this but was unable to come up with an answer. Now he has referred the whole question of the territorial ambit of taxation to the Committee. Another sector which it could affect is shipping. Though several very large companies are headquartered in Hong Kong, their ships are owned by foreign subsidiaries and registered elsewhere.

Probably the most controversial matter facing the Committee is whether or not a dividend tax should be introduced. At present, dividends are tax-exempt on the grounds that the underlying income has already been paid company profits tax. On the other hand, interest payments are taxed because they can be offset from profits tax. The present system is certainly logical. But Mr. Haddon-Cave needs more revenue although he does not want to increase direct tax rates because this might harm investment.

Equity

There may also be an element of equity in his thinking as he seems to want to move towards an eventual introduction of a system of personal taxation to replace the current separation of income into its respective origins. A dividend tax would necessitate also a tax on undistributed profits above a given level. Mr. Haddon-Cave wanted to introduce a dividend tax this year—he suggested it would be around 3 per cent.

But opposition from business interests among the unofficial members of the Executive and Legislative Councils stopped it. They claim that the tax would be unwieldy, complex, discourage investment and push out of Hong Kong companies with regional headquarters who channelled their transactions and profits through Hong Kong. Mr. Haddon-Cave replies that he does not believe these assertions for investment would be a lower corporate tax rate. This has now been raised twice in two years to its current 17 per cent, pending introduction of water

of a dividend tax. The Financial Secretary is confident that if Review Committee will agree with him.

Mr. Haddon-Cave's search for additional revenue without having to raise direct tax is substantially a direct outcome of the more ambitious spending plans that the Government has instituted in recent years. Apart from great increased capital outlays for housing and public works, the Government faces the challenge of providing more and better labour intensive services, such as education and health, to the more sophisticated and heightened expectations that relative prosperity has brought. Mr. Haddon-Cave has put a ceiling on Government expenditure—that it should not exceed 20 per cent of gross domestic product. But that limit will be reached this year. On four years ago the figure was 14 per cent.

The trend may be temporary, reversed as economic expansion sets in again, but the long-term forecast must be for a much lower rate than in the past. The only way is if the private sector can be some of the capital spending burden, particularly on housing. Over the past few years revenue has tended to grow much faster than gross domestic product without need for major tax increases. Rising income changes in the structure of economy and shifts in spending patterns have all played a part. But there are doubts whether this trend will continue, at least to the same extent. Thus the Government is going to find much harder to finance improvements in its services than during the late '60s and early '70s. (Expenditure has grown from \$HK\$800m. in 1965-67 to \$HK\$3,800m. estimated for current fiscal year.) So, with the board, the Government is trying to broaden the base, direct taxation and also to raise more income from duties, charges for services such as water.

CONTINUED ON NEXT PAGE

HONG KONG V

Hong Kong has to preserve a precarious balance when organising its own internal administration and dealing with its overseas representation. Some unusual situations have arisen but by and large the system works well.

Administration

HONG KONG is a British colony according to Whitehall and a part of China currently under foreign administration according to Peking. It is also to a very real extent, though no one likes to stress this too openly, an autonomous self-governing entity. The Colony gets no financial grant from Britain. Indeed, the U.K., according to one senior Government source has on balance probably been making money out of Hong Kong since the defence agreement was renegotiated last year. As a counterpart of economic self-sufficiency Hong Kong has the authority to run its own financial affairs; and the assured but rather individualistic style in which it does so is not necessarily one that appeals to the Treasury in London or to quite a large portion of the Labour Party. The balance between local autonomy and preserving political appearances, however, is one that has to be very carefully struck. One can see how it operates in two major areas—overseas representation and internal administration.

Simpler

The first of these is really the simpler of the two although, to quote a senior Government official, "we have to be very careful not to claim a separate existence, for fear of upsetting China." The problem is, in essence, that Hong Kong has its own economic interests in various parts of the world which need to be actively promoted by someone closely concerned in the Colony's affairs but which cannot usually be taken up directly between the Colony's Government and the other parties concerned. The approach to this dilemma varies according to situation. In Washington, Hong Kong has its own man stationed in the British Embassy working full time on bilateral trade issues. The diplomat concerned is theoretically an employee of the U.K. Foreign Office but his salary is paid by Hong Kong.

In Brussels, Hong Kong maintains contact with the EEC

Commission through its own office under the direction of a former Colonial Secretary who is also an ex-EFTA official. The office technically forms part of the British Embassy but in fact is physically and administratively separate from it. The maintenance of "contact" with EEC officials is supposed to stop short of actual negotiations, which would imply sovereignty, so when it comes to something like arguing with the EEC Commission over access to the EEC Generalised System of Preferences (GSP) for developing countries, Britain has to play the double role of EEC member and spokesman for Hong Kong. In GATT the situation is different again: the official British delegation has a member who "talks only about Hong Kong" but must do so in the name of the British Government. The places where Hong Kong can come out into the open and represent itself include the Textile Supervisory Body of the International Multi-Fibre Agreement, an organisation whose members do not have to be sovereign, and the Asian Games, where Hong Kong teams (made up, of course, of Chinese athletes) can compete without having to pretend to be British.

Hong Kong also has its Trade Development Council, a body which promotes the Colony's exports through its own offices in various major world markets but which is not a full Government department, like the Commerce and Industry Department. Experience suggests that the TDC keeps to the job of trade promotion and does not on the whole get involved in other aspects of Hong Kong's bilateral economic relations.

Hong Kong's overseas representation could be described as makeshift, but effective. Its internal administration is very far from makeshift. The Colony has a public service numbering 114,000 people, which is headed by officials whose calibre probably ranks with the best of Britain's own Civil Service. Here too, however, there are balances to be maintained and lines to be drawn. The Civil Service used to be dominated by expatriates, with even

medium-grade jobs at the executive level or lower filled by staff sent out from Britain. During the past ten years the expatriates have been in retreat to the extent that 85 per cent. of executive class officials and 45 per cent. of administrative grade (though not as yet many of the very top posts) are now filled by Chinese.

Change

The switch to local administration has been generally regarded as a change for the good. It has put the Colonial Government more in touch with the ordinary Chinese population of Hong Kong who may not always understand the idea or motives of the British "mandarins." More and more senior positions will go local in the next few years as the Chinese work their way up the seniority ladder, but there will always have to be some expatriate positions at the top, for two reasons. One is that China would not tolerate "self-government" of Hong Kong by its own local population. The other is that, so long as Hong Kong remains a colony, it must be governed by officials who know how to handle their opposite numbers in Whitehall. Recruiting high quality administrative staff from Britain is therefore one of the things Hong Kong has to be able to go on doing if it is to survive.

The means by which Hong Kong gets its administrators have changed quite a lot in the past ten years. Up to the mid 1980s the Colony relied on "retreads" from other colonial territories. When the supply of these began to run out as the colonies themselves disappeared Hong Kong began to take a more active part in looking for its own future civil servants (for example, by sending its own team to tour selected British universities each summer). It has been getting good results from this policy, claiming an average of 50 to 60 (Oxbridge or similar) graduate applicants each year for about four to six administrative grade posts. More difficult has been the

task of keeping up the expatriate strength in the inspectorate of the Royal Hong Kong Police Force, a special area where the Chinese are not supposed to take too many jobs because of the risk of coming under "pressure" from various sources. The inspectorate, as well as the police generally, was seriously under strength recently and recruitment probably was not helped by the stories of police corruption which filled the British Press. This problem has now been solved, however, at least for the time being by redoubling recruiting efforts in Britain.

At least as important as getting the right quality of men for the Civil Service is the correct choice of a Governor. Hong Kong's last colonial-type Governor, Sir David Trench, was the immediate predecessor of the present incumbent. The job of Governor in Hong Kong nowadays requires a baffling range of qualities which include: the ability to deal with (and on occasion be tough with) Whitehall; a diplomat's grasp of the three-way relationship with London and Peking; a politician's flair for communicating with and being understood by ordinary people; plus some interest in and capacity for handling the administrative problems.

Diplomat

The present Governor, Sir Murray Maclehoose, was a career diplomat who has had to learn late in life how to run a city of 4m. people. Sir Murray spent six months studying the problems of major cities such as London, Singapore and Tokyo before he took up his post and the view of most people is that he does the job well. The next incumbent may have to be chosen as early as next year since Sir Murray reaches retirement age then. But informed rumour in Hong Kong suggests he may be asked to stay on. If he leaves, his successor is most likely to be another diplomat but could also be a British home civil servant, a promoted Hong Kong official, or (least likely but not inconceivable) a politician. C.S.

Fiscal system

CONTINUED FROM PREVIOUS PAGE

It has meanwhile departed from tradition by being prepared to finance some capital expenditure by borrowing. However Mr. Haddon-Cave has indicated that borrowings must be kept within two arbitrary limits he has laid down. They should not account for more than 20 per cent. of capital spending, and debt servicing in any year should not exceed income from investment of fiscal reserves.

In a sense, however, the Government has been much more radical than it pretends. Though the underground railway has been hired off as the Mass Transit Railway Corporation, it is realistically as much a part of Government as, for example, the Kowloon Canton Railway. It is being financed almost entirely with borrowings, mostly from overseas, which are guaranteed by the Hong Kong Government. Its debt, including capitalisation of interest, will peak at around HK\$5,600m. in 1981, or slightly more than double the Colony's current fiscal reserves.

Apart from the contingent liability which has been increased, fiscal reserves as a percentage of expenditure have been falling steeply. So there seems little doubt that Mr. Haddon-Cave aims to get back into surplus by 1977-78 and stay that way for a few years. Given existing commitments, whether or not this can be achieved will depend whether economic growth revives sufficiently to provide not only more revenue but also take the pressure off demands for greater Government spending.

For the current year, the Financial Secretary is budgeting for a HK\$355m. deficit. It is unlikely to be so large even after taking into account salary increases for civil servants not provided for in the Budget. Last year's deficit was only about HK\$35m. compared with HK\$431m. originally estimated, largely on account of huge overruns in public works and housing spending. Though the Financial Secretary has accepted the much smaller deficit, the Government's big

creases in actual public works and housing spending which must take place to catch up with objectives could prove a serious strain on the construction industry at a time when the mass transit project is getting into full gear and private construction spending shows signs of increasing.

Shortage of capacity may hold back actual spending this year. While overall expenditure is aimed to grow 16 per cent. at current prices, or about 10 per cent. in real terms, public works and housing budget estimates have leaped from actual spending in 1975-76 of about HK\$1,500m. to a HK\$2,350m. target this year. While construction costs are likely to rise sharply after actually falling last year due to low steel and cement prices, the actual volume increase will be substantial, after falling last year.

Some accuse the Government of having a fetish about capital spending and public works to the detriment of provision of services such as education. Certainly the impression is given that capital spending is more moral. It is also easier to control. Labour intensive services, once given, cannot be withdrawn, while capital works spending can be varied from year to year. Obviously, it all depends on one's viewpoint as to what Hong Kong lacks most. The Government at present favours housing and education, standards of both of which are still abysmal despite major improvements in recent years.

Sufferers

To the extent that there is a Government philosophy, it might be said to be "the greatest good for the greatest number." The sufferers, of course, are the substantial minority of disadvantaged—the old, the sick, those with large families or lacking relatives.

In so far as Hong Kong's tax system redistributes income, the major beneficiaries are occupants of public housing, some of whose rents are subsidised even after excluding the only national land cost. From

the revenue side, property is also a major redistributive force. A high proportion of total revenue comes from property taxes, rates, property income and land sales. Land is of course naturally scarce and by keeping prices high through restricting the flow of Crown land sales the Government can keep property revenues buoyant. All this helps to account for the fact that revenue is much higher than might be expected given the low rates of direct taxation, the lack of import duties and, with a few important exceptions like tobacco, alcohol and motor fuel, excise or purchase taxes.

Although the taxation system purports to be neutral in the sense that it does not attempt deliberately to influence the economy in general or the pattern of industry, the effect is to discourage land intensive industries. The fact that the Government has provided cheap land for a few favoured industries, notably a plastics plant and an outboard engine factory, can be regarded as an aberration for which no fundamental justification has yet been given.

Of importance, however, in keeping down future rises in costs of land and industrial premises should be the development of new towns and industrial areas in the New Territories—an object which is currently absorbing a major part of public works spending. It is often assumed that Hong Kong's low rates of direct taxation, the non-progressivity of tax, and the relatively small amounts of transfer payments and welfare benefits are simply a result of Government being run on behalf of businessmen. While there is an element of truth in the theory, the antipathy to tax probably goes much deeper than the capitalist class.

Memories are still strong of the cross inroads, inflation and official extortion in China under Chiang Kai-shek. Many came to Hong Kong to escape the honest but rigidly authoritarian Communist government. As for Hong Kong's colonial rulers,

being aliens they are naturally regarded with some distrust. And corruption breeds hostility to Government. The fewer the demands governments make, the fewer the requirements to pay off corrupt officials. So though Hong Kong's residents would certainly like more education, housing, health services and social security it is not clear how far they are prepared to be taxed.

When Mr. Haddon-Cave suggested two years ago that there should be public debate on whether the Colony should forgo some economic growth in favour of welfare and services spending, the response was resounding silence. Though doubtless the rich could be made to pay more, any substantial rise in revenue would have to impinge on both the growing middle class and the better paid workers and small businesses. Even the Communist press is wary of suggesting that more taxation would be a "good thing."

Equity

When British commentators condemn Hong Kong's lack of service and welfare payments and laws they are right, except that it is not clear that Hong Kong's population prefers equity to opportunity. They may find it particularly ludicrous that critics can write whole books about Britain's responsibilities towards Hong Kong without so much as mentioning a factor that could do more than taxes and taxes to raise employment opportunities and wage levels in Hong Kong—reduce the quota and tariff barriers imposed by Britain on Hong Kong's exports. Hong Kong's population is sophisticated and cynical enough to know that when British MPs urge new import restraints in almost the same breath as they condemn "sweatshop" conditions, exploitation and their evils in Hong Kong they do so for their own political benefit not that of Hong Kong's workers. P.B.

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Chinese Opera mask from the Peking Opera (1950-1977 A.D.). This mask was used as a guide for face-painting.

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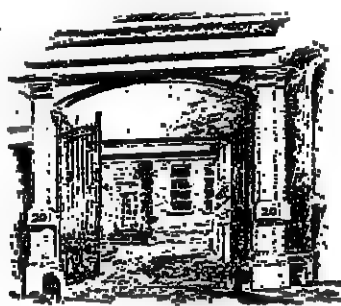
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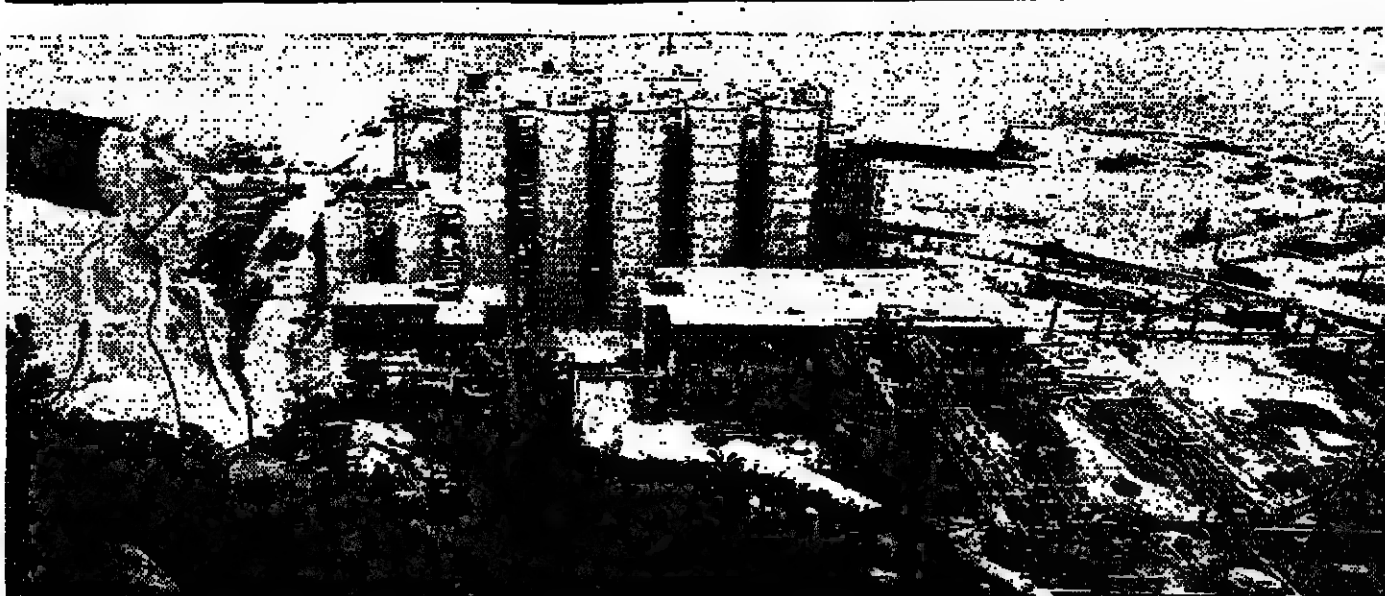


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HONG KONG VI



Dow Chemical Pacific's polystyrene manufacturing plant, which is near completion. The plastics industry produces components for a wide range of products, and this plant will provide the first domestic source of raw material.

Demand for financial accommodation
from Hong Kong's high velocity commercial
economy postulates a substantial banking structure.
This the Colony has, and despite recession its
confidence remains largely unshaken.

Banking

THE IMPORTANCE of banking to Hong Kong can hardly be over-emphasised. At the end of February last, domestic deposits of Hong Kong's 74 licensed banks totalled \$HK37.5bn. This compares with a Gross Domestic Product at current prices in 1975 (by preliminary estimates) of \$HK35.4bn. Take the total assets of the Hong Kong banks, which currently total \$HK67bn, and we have a figure nearly double GDP.

It might be concluded from such figures that either the banking system is ludicrously over-liquid, or that the economic structure is based heavily on debt finance. Neither is the case—though the banking system is admittedly more liquid than for several years.

There are two basic reasons for the situation. The first is the mammoth proportions of the Colony's external trade. Two-way visible trade is running at a level of around \$HK70bn, a year, to which must be added

very substantial invisible commerce. The financing of this trade and attendant manufacturing (a relatively small part of the trade now is export business) necessarily demands a large banking deposit base, and an orientation of banking business towards trade rather than term lending, personal loans or inexplicit provision of working capital via overdraft facilities.

While it is true that commercial banks everywhere are engaged primarily in the funding of short-term commercial transactions, this is particularly the case in Hong Kong. Trade is to a large extent with distant countries, involving long shipping time and thus lags in settlement. Manufacturers are generally engaged in high turnover, low value-added industries, and traders operate on relatively narrow capital bases. Thus though the Colony has a very substantial deposit base, the economy tends generally to be fairly illiquid, with manufacturers rushing madly to their banks to use export documents as security for the financing of purchases of raw materials needed to complete their next orders.

A second factor in the importance of banks is the relative underdevelopment of other financial intermediaries. True, finance companies—many owned by banks—have grown rapidly in recent years. But life insurance companies are fairly undeveloped. Building societies do not exist. There is no Post Office savings system or other Government-sponsored savings mechanism.

How much is cause and how much is effect is not clear. The Government does not borrow regularly, so there is no built-in spur to an official savings system or giro. Home ownership is at a low level and there are no specific incentives to home finance institutions. Residential construction is primarily funded by the Government, and secondarily by property companies which have at least by British standards—little gearing. Housing finance has been growing in importance for the banks and finance companies in recent years and can be expected to continue to increase but it is still relatively unimportant. It will be interesting to see how its growth affects the relative positions of the banks and finance companies.

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people in Hong Kong have suffered in the past—and often still suffer because of the low level of Government social security—makes more than in most places, savings a valued cushion against misfortunes of illness, unemployment or whatever.

For that reason inflation is not simply a bogey dreamed up by a remorseless and fiscally straightfaced Government to keep the natives in line. Just as German attitudes have been shaped by hyper-inflations of the not too distant past, so too has the hyper-inflation that the KMT inflicted on China not been forgotten here. It is neither coincidence nor racial genius which has caused the world's four Chinese communities (China, Taiwan (even the KMT has learned) Hong Kong and Singapore to have four of the strongest currencies in the world.

Inflation

Not that inflation has bypassed Hong Kong. The external orientation and open nature of the economy mean inevitable importation of the phenomenon. Consumer prices increased by 14 per cent in 1974 and 18 per cent in 1975—but only 1 per cent in 1976. Part of the 1973 increase was attributable to domestic inflationary pressures which might have been avoidable. But generally the best that can be expected is that Hong Kong does not add to the inflation imported from its principal trading partners.

This has certainly not occurred over the past 18 months, with weak export demand and for a time high unemployment reducing wage rates at a time when, thankfully, food prices were tending to fall. The net result has been that the Hong Kong dollar has at times been lifted into the superclass of currencies. This was particularly marked in early 1975 when the rate against the U.S. dollar rose to \$HK4.60, and again recently during the currency upheavals in Europe when the HK dollar moved up roughly in line with the German mark.

But this performance may be too strong for a sensitive export manufacturing economy. It is also unrealistic, partly because of the economy's extreme external orientation and partly because, over the medium to short term, substantial balance of payments surpluses will be reflected in a rise in wage rates and spending generally, which will be quickly reflected in a rise in imports. The Colony now may well be on the verge of just such a period.

The currency is strong and is likely to remain so in general terms—reasonably assuming that fiscal policy remains conservative and wage increases do not become institutionalised. But fluctuations will occur and super-hard status will neither be sought nor acquired.

Apart from a general feeling of confidence—and the capital inflow that results from a firm currency—it has also led to a return to relatively low interest rates. Up to 1973, Hong Kong had appeared curiously isolated from world interest rate trends despite the lack of foreign exchange controls. Then a combination of capital outflow, general currency upheavals and increased awareness of the Asia dollar market and other outlets for surplus funds, pushed Hong Kong interest rates sharply upwards.

But since the end of 1974 rates have again been both low and stable. The best lending rate, for example, has been unchanged at 6.5 per cent since March, 1975. This has been the result of a combination of an apparent (no precise figures are available) current account surplus, an inflow of capital and low level of demand for funds

resulting from the trade recession—though loans have picked up sharply in the past few months.

(The Hongkong and Shanghai Bank annual report shows that loans and advances at the end of 1975 were below those of a year previously. While not necessarily caused by a fall in loans in Hong Kong itself, it is reflective of the general straightened Government to climate.)

A related phenomenon has been the rapid rise in amounts due to banks abroad, from \$HK18.5bn in January 1975 to \$HK31.7bn in February 1976. Similarly, amounts due from banks abroad and loans abroad increased even more rapidly. This internationalisation has progressed apace without much worry any longer about the constraints of interest withholding tax in Hong Kong on the Colony's development as a financial centre. This issue, which was so widely discussed 18 months or so ago no longer attracts any attention.

Instead of thinking about a concession from the Financial Secretary on interest tax, banks may now be more concerned that the recently appointed Inland Revenue Ordinance Review Committee may recommend changes in the tax code which would tax profits on some earnings at present classed as overseas earnings and therefore tax exempt.

The increased size of total assets of the banks should have helped keep profits on a fairly even keel at a time when loan demand was low, interest rates were falling and bad debt provisions were presumably at a substantially higher level than for some years. Most banks in the Colony reported marginally higher profits though there may have been some use of hidden reserves to cushion bad debt blows. (The Hongkong Bank, for example, through loss of its business in South Vietnam.)

Unruffled

All the banks have come through the recession pretty well unruffled. The same is also true of the dozens of finance companies, big and small. There have been no casualties, a remarkable achievement under the circumstances, but also one partly due to the fact that bigger interests lie behind many of the finance houses than is often apparent. Ironically, it is only recently (after the storms) that the Deposit Taking Ordinance, designed to regulate finance companies, has come into force. Originally conceived as a measure to protect the small depositor, the Ordinance effectively denies small depositors access to finance companies by imposing a minimum \$50,000 deposit. Many of the smaller finance companies are likely to have to close down. As for the larger ones, it is possible that they will strive harder to attract larger depositors away from the licensed banks.

Though the larger banks all have finance company subsidiaries the field is notable for the presence of both major local Chinese business interests without direct banking connections, and for foreign banks without local branch licences. No figures are at present available on finance company deposits or lending—though they will be once the Ordinance is fully operational—so it is difficult to estimate their importance in the credit system. However, their growth in recent years, though halted by the recession, suggests that broad definition money supply has risen even faster than the banking figures suggest. They have also been a medium for inflow of financial capital from overseas.

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Stock market regulation, company legislation and reporting are less sophisticated than elsewhere in the industrial world. But a conservative approach makes for underlying strength in the company sector.

Stock market

OVER THE past year, which saw the peak of the impact of two years of recession on the Colony's economy, only two public companies have been seen to approach the brink of bankruptcy. One of those was no boom-time wonder company, no highly speculative property developer, no manufacturer suffering a disastrous sales slump in its major market, no shipping company with a string of unwanted supertankers.

No, it was none of these. It was a major European "Hong" Hutchison International, a name at one time almost as prestigious as that of Jardine Matheson or Swire. HIL was rescued last September from a near-fatal liquidity crisis by a new capital injection of \$HK150m, put up by the Hong Kong and Shanghai Bank.

Though HIL's accounting methods and management had long been subject to severe criticism from some quarters, the degree of its problem was a shock.

The rescue attracted some criticism too from those who felt that withdrawal by Wardley, the merchant banking subsidiary of Hongkong and Shanghai Bank, from underwriting a rights issue which would have raised \$HK150m, from existing shareholders was unsatisfactorily explained—given that the Bank itself provided the money but prevented an issue to existing shareholders on similar terms. There was criticism too of the price paid by the Bank—\$HK1 a share compared with a quoted low of around \$HK1.80 and a current price of around \$HK3.

Instructive

HIL's problems were instructive. In the first place, it had for far too long relied on capital profits to pay dividends—which had been generous in recent years. Instead of using such once-off profits for expansion, it financed growth by heavy borrowings, servicing of which became a crippling burden. Also, it reduced its holdings in many former subsidiaries to associates and was thus unable to make use of the positive cash flow of some of these companies to sustain the group as a whole.

HIL was also a victim of its weak, rambling structure of over 300 companies, most of them regarded as a "good buy" at some time, rather than fitting into a coherent business strategy.

HIL's failings were extreme, but not unique among the Hong Kong companies. The directors of Wheelock Marden considered themselves above such obligations. Their recent announcement of a sharp drop in profits and dividend drop (and the need for a rights issue) came as a shock to the public which had not been aware of how reliant on capital profits Wheelocks had evidently become.

Now that capital profits have been exhausted, the company has been determined to give in future breakdowns of the nature of profits. At present the accounts of the Wheelock group companies baffle analysts who attempt to get a clear picture of the overall situation, though one fact is clear—that the parent company is deeply indebted to a couple of cash-rich quoted subsidiaries. To mention the case of HIL and Wheelock is not to say that Chinese-run companies have

Standards

What emerges then after the recession is a picture of many medium to large local companies which are basically very conservatively run, even though often in high risk business areas. They perhaps spoil their own image—at least with the more sophisticated investors—by feeding shareholders a pretty bare minimum of information, and for producing uninformative accounts. Far too often it happens that auditors will only state that accounts present a true and correct view, rather than "true and fair" one.

Standards have improved since the Companies Act provisions came into force last year but the situation is still unsatisfactory, and probably puts some companies in a worse light than they deserve.

Paraphrasing it must be pointed out that one listed company, Moshert Holdings, has actually gone into receivership this year. It was a key part of the amazing and now collapsed Moshert empire built up to a large extent on the back of Moscow Narodny Bank loans by Singapore entrepreneur Amos Dawe. However, Moshert had very few assets in Hong Kong; the Moshert Holdings shares were little traded and indeed the company seems to have existed for tax purposes as much as anything.

Moshert, and a couple of not dissimilar cases, together with the controversies surrounding the share dealing activities of Slater Walker and Ralli-linked companies have led some Hong Kong observers to suggest that most of the damage done to Hong Kong's name has been done by outsiders and not by local entrepreneurs. In fact there have been home grown problems as well—the Paul Lee fraud case for example. But perhaps outsiders were quicker to spot the potential for exploiting Hong Kong's under-regulated market than the locals.

Steps towards greater regulation are still being made. A takeover code has been introduced, based on the London version but watered down in several respects—notably it lacks a 30 per cent. rule. This omission is probably desirable in local circumstances where other companies, or individuals, often already have actual or effective control of public companies. Partial bids may also be a way of returning to life some of the burned-out shells launched during the boom.

The Securities Commission has become more active in seeking explanations from companies for their behaviour, and

is beginning to show some teeth. However, it still lacks sufficient skilled staff for the labour-intensive work of investigation and supervision. The Commissioner, Mr. James Selwyn, is believed to be pressing the Government to activate provisions in the law against insider trading—though included in the Securities Ordinance they are not yet in force.

The Commissioners' concern has been prompted by a fairly steady stream of apparent examples of insider trading, some involving important announcements by major companies. A big investigation is currently under way into dealings which took place in Wheelock Marden shares before the announcement of its profits collapse. It can reasonably be debated whether a law against insider trading can be enforced, particularly in Hong Kong's circumstances. However, the reactions of some persons in positions of influence here to some glaring examples of the practice suggest that they do not regard it as an undesirable practice.

Another step towards an improved market would be to replace the four existing stock exchanges with a single one. This would make it easier to deal in large lots; administration could be automated; listing requirements could be standardised and improved; and there would be fewer and probably more professional brokers.

Mr. Selwyn recently began first steps towards a single exchange when he put forward some thoughts on the subject for discussion by the exchanges. Unfortunately they were probably too specific and were rejected out of hand by all the exchanges. Now it is not clear whether they are all opposed to the principle of a single exchange, or just to some of Selwyn's specific ideas. As it would not be possible to amalgamate the four, given the wide variations in their assets and in turnover per member, a new exchange would have to be created.

Mr. Selwyn would like to see the number of brokers drastically reduced—he suggested about 300 against the existing 930. But it would be difficult to determine who should get the seats on the new exchange—though they could be put out to tender. Those who lost their seats would want compensation particularly as many bought them at high prices during the boom. Compensation raises the problem of seat values. Evidently one on the Far East Exchange, whose 340 registered brokers had 45 per cent. of total turnover last year, is much more valuable than one on the Kowloon Exchange, whose 147 brokers shared a mere 2 per cent. of turnover.

Institutional rivalries and jealousies are also involved. The Hong Kong Stock Exchange, the original and most European-oriented, might be particularly loath to lose its identity. It is now only third in turnover, though its 127 brokers have the highest per head turnover. Though many of the bigger Chinese brokers would be happy to see a single exchange they are not necessarily prepared to say so too loud for fear of offending the many single trader sole trader firms who would lose out from reduction in numbers.

Mr. Selwyn appears earnest in his endeavour. But if the changes are intransigent he will need Government backing to make progress.

The sharp revival of turnover this year will certainly not have helped the idea of a single exchange and some members who were inactive now find themselves with business again and thus less reason to be prepared to drop out of broking—though many registered brokers remain inactive and are simply sitting on their seats in the hope of eventually disposing of them for a reasonable price.

Generally speaking the market appears to have gained much in maturity, though this has not necessarily been good for turnover. Between May and December last year the Hang Seng index moved within an extraordinarily narrow band around 320 on turnover at a low ebb. The first quarter of 1976 saw a sharp advance on much increased turnover in response both to the sharp pickup in the economy and the strength of Wall Street. But even so, the advances have been punctuated by regular bouts of profit taking and have also been more selective. Third rank stocks—when traded at all—are (generally rightly) still at very low levels.

Given the high liquidity of the banking system sharper advances might have taken place but for the proliferation of major issues. These showed that the Hong Kong market is still one where capital can be raised, not just a secondary market in

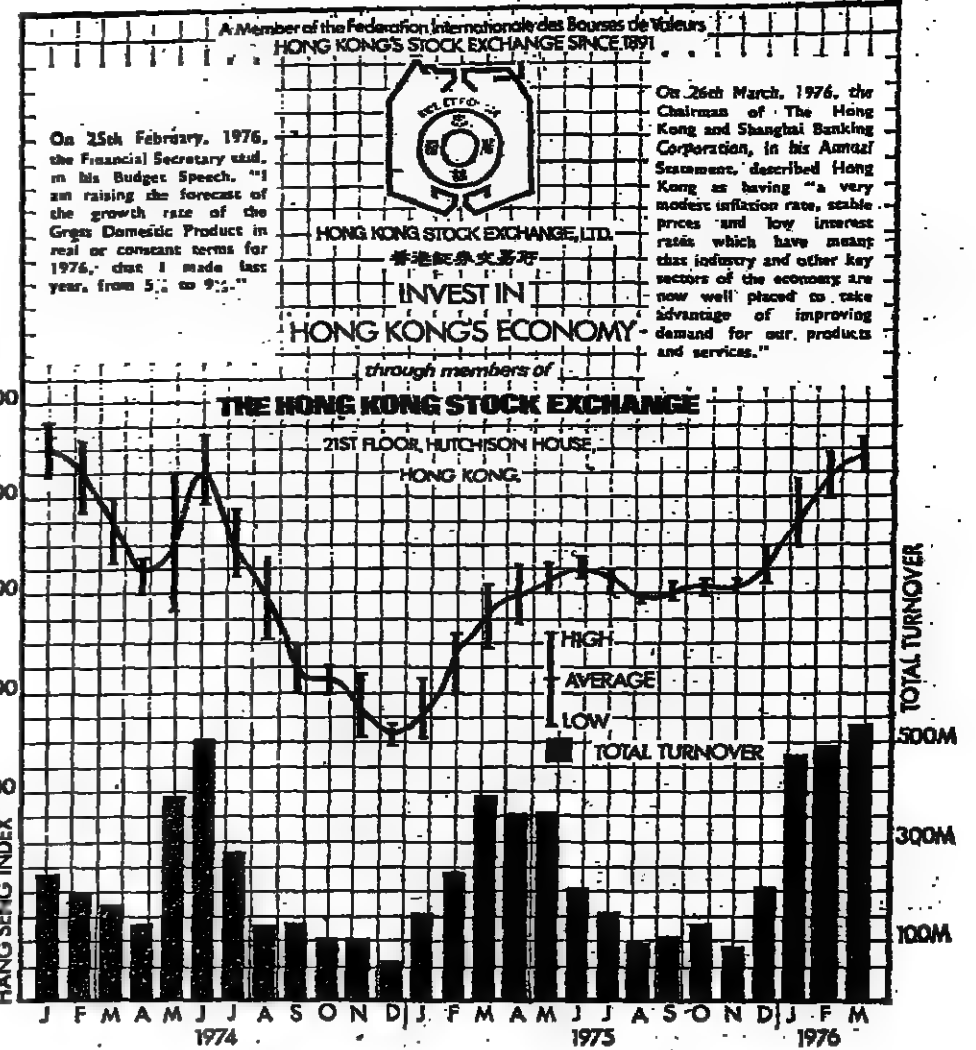
existing issues. Most spectacular was Jardine Matheson's raising, in two tranches, of \$HK500m, via a rights issue of convertible loan stock. Hong Kong and Whampoa Dock, Hong Kong and Kowloon Wharf, and Hong Kong Telephone are among others to have raised new capital. The Hong Kong Government has made a major bond issue and the Mass Transit Railway Corporation will be coming to the market before long.

Many of these issues show that Hong Kong is now prepared to take convertible or straight debt issues seriously. In the past the fixation with quick capital gains made many scorn anything but equity.

The success of these issues may also be attributed to the fact that while HIL and Wheelocks have languished other major companies such as Jardines, Swires and the Hong Kong Bank have managed to increase earnings per share despite the slump.

Though this does not necessarily mean that they will now see steep profit rises as the economy expands again, they showed the defensive strength

P.B.



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HONG KONG VIII

BUSINESS PROFILES



H. N. Harilela.

HARILELA GROUP

HARI N. HARILELA has such a soft spoken confident manner that it jars to hear him describe his command of the Cantonese language as "excellent" and his proficiency at tennis "very good." But H. N. Harilela is a man who knows his strengths and his weaknesses.

Six years after he was born in Hyderabad in 1922, the Harilela family moved to Canton, which they left in 1934 for Hong Kong — hence the command of Cantonese. With a propitious sense of timing the five Harilela brothers (they were later to be joined by a sixth) opened their first tiny tailors shop just behind the YMCA in Hong Kong's Tsing Sha Tsui district during World War II.

Business was slack during the Japanese occupation of Hong Kong, but with the Japanese surrender in 1945 hundreds of British and Commonwealth troops began landing in the colony and Mr. Harilela's "38 hour custom made suits" were much in demand.

But Harilela's and the two other custom tailoring houses then operating in Hong Kong spawned so many competitors that by 1957 the brothers—under the leadership of second son Hari—saw the need to diversify.

To-day the Harilela Group of Companies with "Mr. Hari" as managing director, comprises retail outlets in Hong Kong, Okinawa, Guam and Frankfurt; manufacturing ventures such as a stainless steel cutlery plant in Malaysia; property in both Hong Kong and Malaysia; and hotels, including the Hong Kong Holiday Inn.

Management, says Hari Harilela, has presented no insurmountable problems. The six brothers are close—they and their wives and 20-odd children share a purpose-built 40-bedroom house—and all have their own individual responsibilities within the business.

But he recognises that day-to-day management of the HK\$300m empire may one day have to pass into non-family hands, and Harilela is much concerned to-day with finding experienced executives who can carry that burden when the time comes.

While he feels that formal management education is useful to the degree that it can telescope some basic lessons into a short space of time, he persists in the belief that experience, and most of all "the setbacks," are the best teachers.

A Hindu, Harilela spends his leisure time reading "condensed books plus religion and philosophy" and has set himself a strict target of 60 pages a day. His only regret is that the huge Harilela family has not yet produced a tennis player good enough to give him a run for his money.

Jo McBride



John Boyer

HONGKONG BANK

"EVERY NEW Banking Commissioner who comes here wants to set up a Central Bank but then decides it's not worth the expense," says John Boyer, General Manager of the Hongkong Bank Group, which performs most of the functions of a central bank but claims not really to enjoy doing so. The Hongkong and Shanghai Banking Corporation is by far the largest in the colony, even if one ignores the 58 per cent stake in the Hang Seng Bank

which it has held since the 1963 banking crisis. Its depositors are probably over 90 per cent Chinese in origin, and the majority of its 130 branches throughout the colony are Chinese managed. But the top posts are all British and will no doubt remain so. The bank's head office, with Trafalgar Square-type lions flanking its entrance, stands next to the taller but on the whole less imposing headquarters of the Bank of China in the very heart of the business district. Its charter requires it to store coinage for the Government, which it says is becoming an increasingly costly business. It also issues about 75 per cent of the notes in circulation in Hong Kong and acts as unofficial "lender of last resort" when companies get into trouble.

The last time this happened was in 1975 when the bank stepped in to rescue Hutchison International, a hard pressed trading conglomerate whose chairman had invested indiscriminately during the 1973 stock exchange boom. In acquiring a substantial shareholding in Hutchison last year and taking responsibility for the company's debts, the bank said it was acting "reluctantly" and was not seeking to protect its own prior interests in the company. It plans to sell its Hutchison shares "when the time is ripe."

Outside Hong Kong the bank is active throughout most of East Asia. It also has stakes in India and the Middle East through its interests in the Mercantile Bank and the British Bank of the Middle East. Hong Kong, however, is its most profitable area because of the colony's low tax rates. It is also probably the place where least external interference is experienced in management and staffing policies. Elsewhere in Asia Mr. Boyer says the bank failed to anticipate the speed at which it would be expected by local governments to regionalise its staff structure.

why 85 per cent of those who invested in the 1973 (Hong Kong) Stock Market boom got their fingers burnt. When three-quarters way through the 1973-74 monthly newsletter was telling investors it all had to end, Mr. Au was dubbed the "Super Bear" by the local Press. Early this year his nomenclature was reversed with Mr. Au becoming "Super Bull" thanks to his prediction that the Hang Seng share index would hit a 500 mark this year—it rose sharply in March to hit 450 but has since slipped. Mr. Au sticks by his prediction.

Mr. Au travels widely to meet Foreign correspondents in Europe, South East Asia and the United States, and feels strongly that "banking is a human business and we have to know each other." His travels have also led him to conclude that he would prefer his potential partner to be European "because they understand such human relationships far better than the Americans."



T. K. Ann.

WINSOR INDUSTRIAL

THE WINSOR Industrial Corporation was not the only Hong Kong company to make a record profit in 1975-76 and then see it slump to pre-1969 levels in 1974-75. But Winsor Industrial's chairman, Mr. T. K. Ann, also became chairman of the Hong Kong Trade Development Council during the Colony's latest economic rise and fall, and it was to him that many people looked for encouragement during the period of recession.

His seemingly innate optimism has been proved right—though the extent of the improvement in Hong Kong's economy in recent months surprised even him. When the trade figures for March, which showed a 93.5 per cent increase in exports over the same month last year, were announced at the beginning of this month, even Mr. Ann admitted surprise at "such a dynamic change."

With personal interests in textiles, clothing and electronics—Hong Kong's three top export and civic responsibilities such as his seat on Hong Kong's Executive (governing) Council, Mr. Ann has every reason to be pleased.

But Tse-kei Ann is not a man given to blind optimism. In addition to his keen business sense and proclivity for hard work—hardly rare in Hong Kong—Mr. Ann has the inventor's capacity to meet challenges and turn the new concepts which he identifies into real action.

In his youth in Shanghai, his desire to "open windows on the world" led him to study a number of European languages. But for Mr. Ann study means output as well as input and after several years of learning French he wrote a manual on French pronunciation. The work was never published "due to the war and other things," and in 1948 he moved to Hong Kong and continued in the exporting business which he had already begun in China.

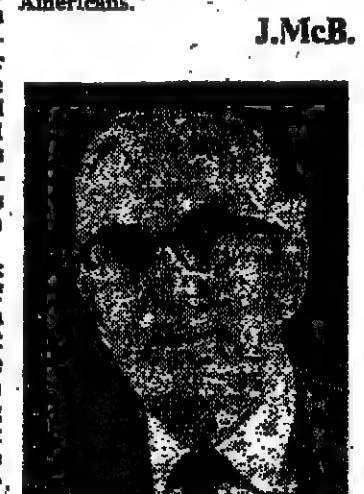
He also made his first foray into textile manufacturing—a finishing venture which is now a part of Winsor Industrial's spinning, weaving, knitting and garment making interests.

Despite his considerable respect for Mr. de Bono's "lateral thinking ideas," he refuses to enter into the debate which is currently expiring much of Hong Kong's textile sector—"What will follow denim?"—or at least refuses to be drawn on the result of his own deliberations on the topic. Instead he points out that denim is now almost a way of life for many people regardless of their nationality or social class. He adds too that Hong Kong is uniquely placed to take advantage of whatever follows denim at the moment whimsical end of the market because the colony is a free port and can buy in whatever foreign yarn or textile there is demand for and produce shirts or clothing from it.

It is indicative of Mr. Ann's explorer's mentality that he was not content to become simply a textiles and electronics exporter—his Swops Electronics is now run largely by his three sons—but also felt the need to understand fully the trade mechanisms which controlled the future. Having acquired the knowledge he then shared it by writing his "International Trade Practice" which is now a standard textbook in a number of trade training centres.

Now 65 years old neither Mr. Ann nor anyone associated with him envisages his retirement in the foreseeable future. He travels constantly on behalf of the Trade Development Council, and in addition to his chairmanship of Winsor Industrial is a director of Orient Overseas Container (Holdings), Ocean Land Development, the Hong Kong Development and "public interest" director of the Kowloon Motor Bus Company (1933). He was also, until recently chairman of the Hong Kong Federation of Industries Council and has led a number of Hong Kong delegations to the Economic and Social Commission for Asia and the Pacific (ESCAP).

J. McB.



Norman Thompson.

MASS TRANSIT

"MY RAILWAY EXPERIENCE is nil, but I do profess to know how to run something at a profit," says Mr. Norman Thompson, chairman and chief executive of the Mass Transit Railway Corporation, the company set up by the Government to run Hong Kong's new underground system. Mr. Thompson's past career justifies his claim to be able to produce profits.

He had the job, as managing director of Swan Hunter in the late 1960s, of reorganising the old Singapore naval dockyard into a commercial (and to-day very profitable) ship repair yard. After that he went to Cunard, which was losing £5m a year when he arrived and making a profit of £12m a year when he left. The emphasis on profit is important because Hong Kong decided, after arguing for ten years about its underground scheme, to carry out the project as a commercial venture rather than a subsidised public service. The Mass Transit Corporation, which is wholly owned by the Government at present with a capital of HK\$800m, will start to go public during the mid-1980s, though the Government will always retain half the shares. Export credits and other loans will all be paid off by 1992. Mr. Thompson says, although the first hole was only dug last November and the first train on the 16-station line will not run until 1979.

Mr. Thompson says it should be possible to run the line at a profit because it represents the "heart" of a typical city underground network rather than a complete system with unprofitable lines stretching out into the suburbs (of which Hong Kong has none to speak of). Around 1m people a day will use the line by the early 1980s, compared with the 1.75m who use the entire London Underground at present. There will be a two-minute gap between trains at peak hours, with up to 3,000 people packed on to each train.

Mr. Thompson arrived in Hong Kong to take charge of the mass transit project at the end of 1974, just about the time the Japanese group, led by Mitsubishi, was backing out of its earlier undertaking to carry out the whole scheme at a fixed price of HK\$5bn. He says there are no hard feelings to-day about the Mitsubishi withdrawal: it may have delayed the scheme by a year or so, but 1975 turned out to be an extremely good year for letting civil engineering contracts because prices were down about 15 per cent from a year earlier.

Mr. Thompson says Hong Kong is a good place to work because "you can get things done and the atmosphere brings out the best in people." He plans to stay long enough to see through stage one of the underground project and possibly longer. That depends on how soon the Government carries out remaining stages, which would extend the network from 15 stations to 48.

C.S.



Stanley Au.

FOREX GROUP

THIRTY-FOUR-YEAR-OLD Stanley Au is looking for a European partner. Reason: "It's the fastest way to become an international banker." Not that Mr. Au, managing director of the Forex Group of Companies, has been without offers. But the foreigners who wanted to buy into his 18-year-old merchant banking empire also wanted a majority stake, something which Mr. Au was not prepared to give.

Banking is in the Au blood. Born in the Portuguese colony of Macau, where his father owns the Hang Sang Bank, Stanley Au left high school at 16 and opted to work in Hong Kong's Hang Tai Bank (now a finance company) because it was small "and I could work in every department, going deep into the mechanisms of each one."

When he left Hang Tai after three and a half years he started a small business dealing in foreign currency notes, largely because, he says, "it needed very little capital."

From that grew Forex, which is to-day, he claims, the only Hong Kong financial institution offering the full range of merchant banking services. But Mr. Au has appointed an experienced Dutch banker to oversee a large section of the business, preferring to retain his management on something every day, why should I gamble in games of chance?—and keeping business strictly within the family. With the faintly amazed disdain of a foreigner and regards the "Chinese desire to hear only good news" as the major reason

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D. K. Newbigging

JARDINE
MATHESON

WE ARE something like a Japanese "zaibatsu", but with the difference that we don't have a Ministry of Finance behind us," says David Jardine, chairman of Jardine Matheson, the biggest of the Hong Kong "hongs". The point of the remark is not only that Jardine's has become highly diversified in the past ten years, both geographically and by industry, but also that Jardine's itself forms the nucleus of a related group of companies, rather in the way that the major Japanese conglomerates are built around a bank or trading company. The chairman of Jardine's, ex officio, chairman of the Colony's biggest property company, Hong Kong Land, and of Hong Kong and Kowloon Wharf and Godown company, as well as about 15 other Hong Kong-based enterprises, Jardine's itself may have only a minority shareholding in many of these companies but there is acknowledged to be a loose group relationship. Where Jardine's claims to differ from some of the Japanese industrial conglomerates is in its "in-group" purchasing policies. Hong Kong Land buildings may be equipped with Mitsubishi lifts, even though Jardine's represents the Swiss Schindler lift company. "We only make a point of buying group products when all other factors are equal," says Mr Newbigging.

Outside Hong Kong Jardine's says its policy is to expand within the region—and sometimes outside it—by buying into local companies, often with a minority interest which may later be turned into a majority holding. Jardine's is in sugar in the Philippines, timber in Indonesia, oil exploration servicing in Singapore and, from last year, hotels in South Africa. Local companies are normally run by local executives. But the Jardine's "dynasty" retains ultimate control in Hong Kong, and men who rise to the top on the periphery should not expect to attain supreme power at the centre. The Kewick family, descendants of one of the two founders of the company, have a percentage shareholding estimated to be in "the teens". The family produced the last Jardine chairman, Henry Kewick, who retired at the age of 37 after five years to become head of the company's London affiliate. The present chairman is a second generation Jardine man.

Jardine's is less active in Hong Kong public life than some of its competitors; for example, its chairman is not a member of the Legislative or Executive Councils. In 1974 Hong Kong generated only 10 per cent of group profits, but this was partly because of a sugar bonanza in the Philippines, and by last year the Hong Kong ratio was back to 50 per cent. The group is very much part of the local landscape. Its head office occupies the top floor of Hong Kong's newest, tallest and most luxurious skyscraper, the Connaught Centre.

The trouble with Hutchison, as retrospective critics point out, was that Sir Douglas Clague (who was until recently "non-executive chairman") knew how to buy companies but did not always know how to run them. The "buy anything and everything" strategy worked brilliantly during and after the 1967 riots, when Sir Douglas was one of the few men prepared to stake much money on the political future of Hong Kong. It turned out to be a mistake during the 1973 Hong Kong stock exchange boom when Hutchison acquired things it did not really need at prices which soon began to look extravagant. Mr Wyllie says the group made a substantial loss in 1974, although its accounts "indicated" a profit. Two unlucky decisions—one involving the Indonesian timber industry and the other an ill-judged Swiss Franc loan—finally produced a situation last year in which Sir Douglas and Hutchison could no longer cope. The company could have been liquidated in 1975, with shareholders getting about 81 each for their shares, but the effect on business confidence would have been shattering.

Mr Wyllie says his present job at Hutchison is to "identify what we have and build a headquarters team." When he has finished this the thinning process will no doubt get under way. The Hutchison group at present comprises about 360 companies, in which the degree of control varies substantially. About 120 of these are likely to be shed and up to 2,000 employees may leave the group's payroll. Mr Wyllie does not admit, however, that he plans to sack anyone. In a previous reconstruction job involving a company called China Engineers, which constitutes his main qualification for his present post, he reduced the company's labour force by 600 out of a total of 2,500 but in most cases by transferring ownership of subsidiaries to other groups.

The reconstituted Hutchison will look less like a rag-bag of chance acquisitions and will concentrate chiefly on property, engineering and docks, including container facilities. Ironically the group may have benefited considerably from the failure, last year, of Oyama Shipping, a Japanese company which had interests in Hong Kong. Hutchison bought Oyama's Hong Kong container facilities at a knock-down price, which could have been one of the best bargains negotiated by the previous management.

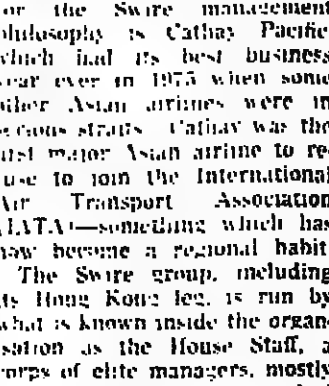


John Brembridge

SWIRE
GROUP

THE SWIRE GROUP, formerly known as Butterfield and Swire, rivals Jardine's as the biggest and most powerful of Hong Kong's conglomerates, but differs from Jardine's in being controlled from London. Hong Kong is actually one of four "legs" making up the group (the other three being Japan, Australia and the group's world-wide shipping interests). The Hong Kong leg is the "fattest" according to John Brembridge, who is in charge. It employs over 15,000 people in industry, shipping, hotels, insurance and in the Hong Kong-based airline, Cathay Pacific in which Swire is the controlling shareholder. John Brembridge says Swire's development policy is different from Jardine's. The company never buys less than a controlling stake in any enterprise it moves into and claims to be less profit oriented in its choice of investments. The aim is to develop the main lines of group business in shipping, trade and transport rather than to spot interesting novelties like Jardine's Singapore oil servicing business. A good advertisement for the Swire management philosophy is Cathay Pacific, which had its best business year ever in 1975 when some other Asian airlines were in serious straits. Cathay was the first major Asian airline to refuse to join the International Air Transport Association (IATA)—something which has now become a regional habit.

The Swire group, including its Hong Kong leg, is run by what is known inside the organisation as the House Staff, a corps of elite managers, mostly from Cambridge, who are picked by the chairman of the London holding company, John Swire. The House Staff are all expatriates and even the most senior Hong Kong Chinese managers are not made the transition. Some of the latter, however, may be more highly paid than the expatriate managers.



William Wyllie

HUTCHISON
INTERNATIONAL

HUTCHISON International, one of the four big "hongs" or trading conglomerates of Hong Kong, got into financial difficulties last year and had to be rescued by the Hong Kong Bank group. The man chosen to reorganise the company, which was previously something of a one-man show headed by Sir Douglas Clague, is a 55-year-old former Australian motor dealer named William Wyllie. Mr Wyllie is certainly the least typical of today's Hong Kong tyrons, but he continues to stay. He says it may take a year to put Hutchison back on its feet. After that the next future he can see for himself is to carve up with the joint venture with Jardine's.

The textile industry is still the mainstay of Hong Kong's economy, although import restraints in some countries suggest that the Colony may be too dependent on revenue from this sector.

HONG KONG'S commitment to textiles and clothing has stood it in good stead during the past nine months. The industry began to recover from the prolonged post-oil crisis recession faster than most other activities in which Hong Kong businessmen are involved, so much so that, by the turn of last year, garment exporters were working flat out to meet orders from America and Western Europe. For 1975 as a whole Hong Kong's garment exports were just over \$HK10bn, which was a 16 per cent improvement on the 1974 figure and represented 44 per cent of total visible exports.

Last year was less good for most other sections of the textile industry: exports of cotton fabrics fell slightly, from \$HK1.3bn. in 1974 to \$HK1.17bn., while non-cotton fabrics, a fairly small sector for Hong Kong, were down from \$HK538m. to \$HK394m. By January, however, even the cotton fabrics sector was being flooded with orders. Cotton fabric exports in January alone were up 86 per cent, on a year

earlier, mainly because of the denim boom in the U.S., which has been a particularly fortunate windfall for the coarse cotton yarn specialists in the Hong Kong spinning industry.

All this has been very good news, given that most of Hong Kong's other exports continued last year to run below their 1974 levels, and given that the total value of exports was down by 2 per cent. But the vital part played by the textile industry in helping to get Hong Kong's economy moving again adds point to a question which has been causing vague uneasiness for some time: has Hong Kong become too dependent on textiles for its own long-term welfare?

People who think it has would point to two basic snags about the industry, one applying to all Asian textile producers and the other to Hong Kong in particular. The first point is that world trade in textiles has become and will no doubt continue to become progressively more subject to import restraints by developed countries. About 82 per cent of

Hong Kong's textile exports now are under quota, including the bulk of shipments to its three biggest markets. These are the U.S., which takes 31 per cent of total textile shipments, West Germany and the U.K. The second point is that Hong Kong is fighting to keep its place, admittedly with remarkable success to date, in an industry in which practically every far eastern nation is now trying to make its way. Hong Kong is a veteran in textiles, compared with say Indonesia or Thailand or even with Taiwan and Korea.

But Hong Kong's wage rates are now the highest of any major Asian textile producer, except Japan which is about 80 per cent higher, and in some areas this difference is beginning to tell. Hong Kong garment makers do not work to their own designs. But they can produce garments to designs supplied by American purchasing houses and have them in the shops on the U.S. East Coast within two months of receiving the initial order, which is faster as well as cheaper than the Chicago clothes manufacturers

are usually able to manage. To deliver at this speed of course involves shipping by air, but Hong Kong is now into a price bracket where the extra cost of air freight can usually be absorbed and this form of transport has virtually doubled over the past year or two.

The two other things Hong Kong can do to keep itself in the textiles business as long as possible are to make maximum use of its quotas and to ensure that the industry and particularly the garment makers buy their raw materials from the cheapest possible sources. Both of these sound straightforward enough, but in fact both are very much the opposite. No government has yet devised a satisfactory way of allocating quotas among competing textile makers so as to ensure that quotas are fully used and that the quotas go to the companies that deserve them. Hong Kong's scheme may be as good as any but the Government admits that it is far from perfect.

At present the system gives quotas to established manufacturers on a scale linked to past performance but penalises or

rewards companies for being even the most uncomfortable one that the Colony faces. The other dilemma is what to do about sections of the textile industry which, despite quality improvements, specialisation and successful trading-up, are beginning to be seriously bothered by loss of competitive strength.

The weaving industry could find itself in this category within the next five years or so, at least according to some of the more pessimistic prophets in the industry itself. But for the present it is spinning which seems to be facing the biggest external pressures.

Hong Kong's spinners no longer supply the entire domestic demand for yarn. About 30 per cent of the total is met by cheap imports. They are having difficulty hanging onto their remaining 70 per cent, because of price cutting by other Asian producers including Pakistan.

Pakistan can deliver standard grade cotton yarn in Hong Kong at about 20 per cent, less than the equivalent domestic industry price. The Hong Kong Government is racking its brains at the moment to find a quota allocation system which will continue to ensure maximum use but also remove the disincentive to new companies to move into the textile business. The problem could turn out to be insoluble, judging by the experience of other countries which have also been trying to work out the ideal quota allocation system. But it is not the only or

P.B.

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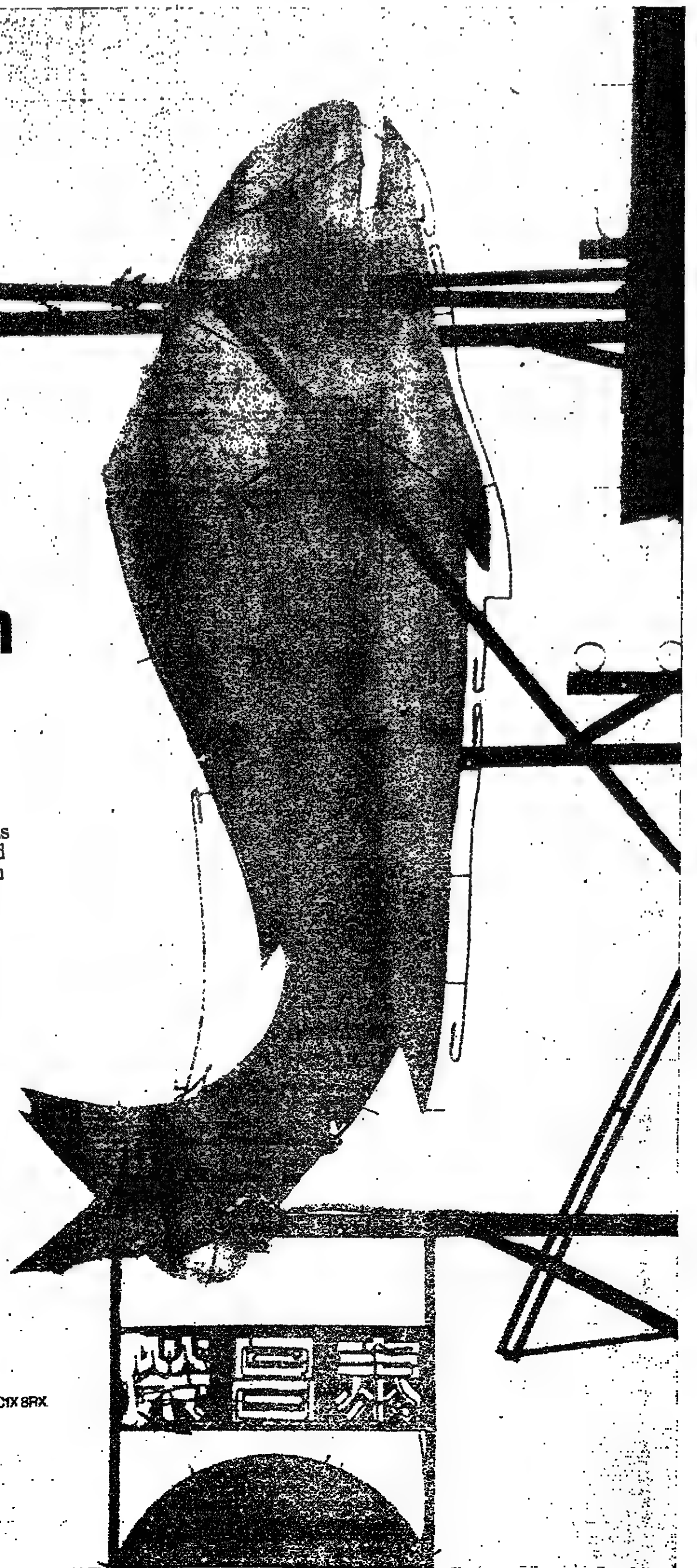
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HONG KONG X

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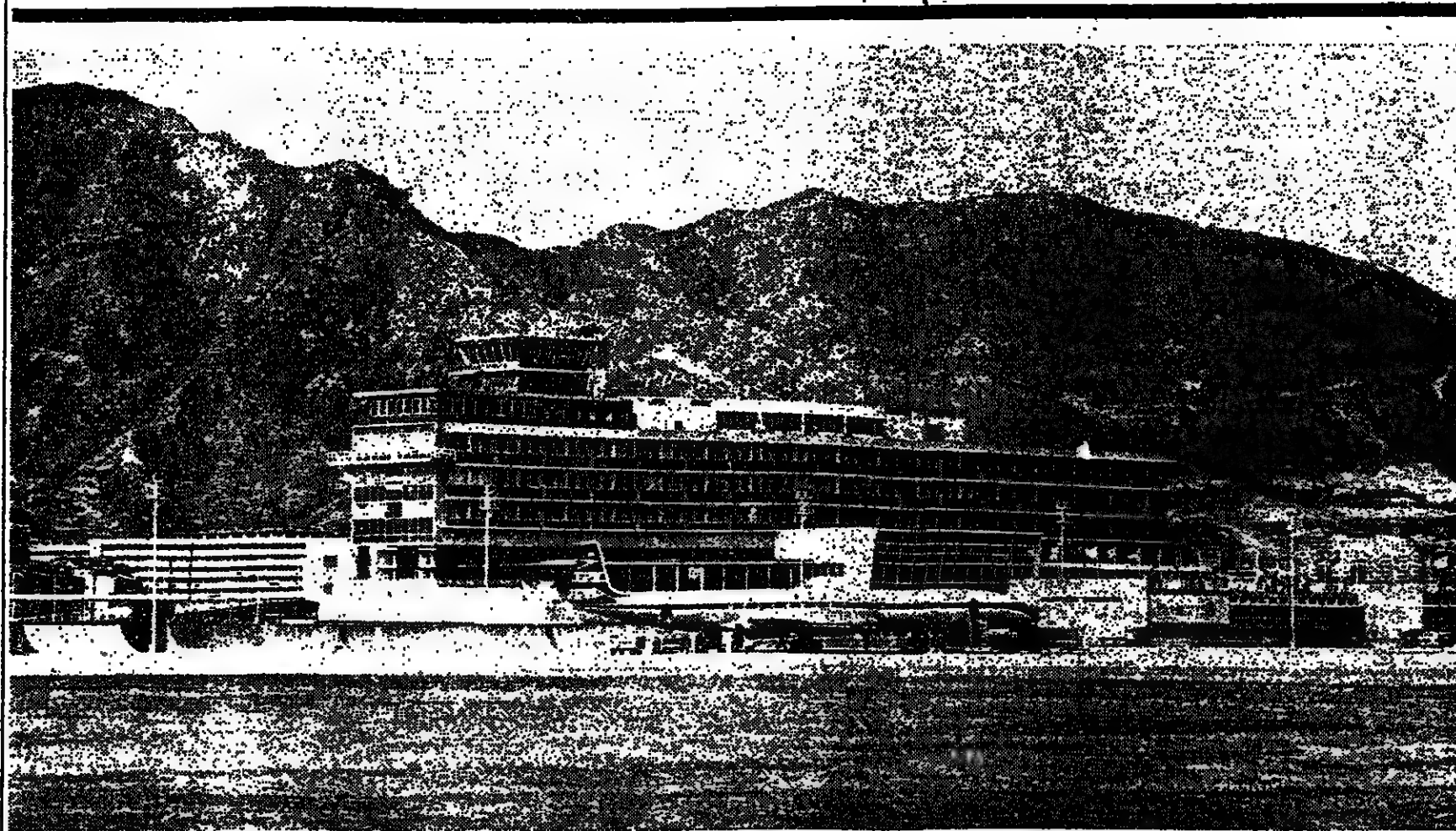
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Hong Kong's international airport at Kai Tak has recently been extended and a new cargo terminal is being opened. The airport operates at a profit, as does the Colony's airline, Cathay Pacific.

The runway at Kai Tak airport has now been extended to over 11,000 feet and a new cargo terminal, costing £11.7m., was opened last week. More than 40 carriers use the airport for scheduled or charter flights. Moves are now being made to overhaul and extend the passenger facilities.

Air services

PRIVATE enterprise maintains a dominant role in the development of facilities at Hong Kong's Kai Tak international airport, and in the impressive expansion of the Colony's own airline—Cathay Pacific. Both airport and airline regularly return healthy profit figures.

Government, for its part, causes its Civil Aviation and Public Works Departments to initiate major redevelopment projects in tandem with a wide range of service support works at the airport. It also takes minority equity positions in related private sector endeavours, and represents Hong Kong interests in tough traffic rights negotiations—although overall responsibility in this area is held firmly by Britain, with the Hong Kong lobby appearing more in an advisory capacity.

Cathay Pacific is Asia's largest regional airline—excluding Japan Air Lines, which would properly be classified as an intercontinental carrier. Flight crews, entirely expatriate, are primarily British or Australian. At the end of April, Cathay had a fleet of 12 Boeing 707-320s and two brand-new Lockheed L1011-100 TriStars serving 15 cities.

The controlling interest (52.2 per cent.) in Cathay Pacific is vested in publicly quoted Swire Pacific, an associate of John Swire and Sons of London through John Swire and Sons (R.K.). Other shareholders are the Hongkong and Shanghai Bank (25 per cent.), British Airways Associated Companies (15 per cent.), and P. & O. (7.3 per cent.).

Until a recent share reconstruction within the Swire Group the airline essentially remained in non-public hands and its profits a jealously guarded secret. Market analysts could only surmise Cathay's contribution to British Airways and P. & O., and guess at the dividend cover.

Options for two more TriStars from Lockheed have been dropped (Cathay's Director of Flight Operations, Captain E. B. Smith, resigned and left Hong Kong after being named as recipient of a Lockheed commission following the U.S. inquiry), but Cathay has leased a third TriStar from America's Eastern to augment its lucrative Hong Kong-Japan route from September. This aircraft will be replaced six months later by another TriStar purchased outright from Eastern and being modified to suit Cathay design requirements.

Another interesting development is that from July 8 Cathay will use one of its 707s in an all-cargo configuration—the first regional freighter in Asia. Its 36-tonne capacity will be roughly four times that of a TriStar passenger-cargo mixed load.

In January, the runway was opened to its full 3,392-metre (11,130 feet) length. The extension 10 years 1965-75, Cathay's own work, on further land

reclaimed from the harbour, had in fact been completed for almost two years, but the runway's other end was then closed to allow the building of a road tunnel beneath the strip, providing a better link between two important Hong Kong industrial areas.

This month also sees the opening of a £11.7m. air cargo terminal, the brainchild of the Swire Group and Jardine Matheson, with wharf company and government participation as well. Using both automatic and back-up mechanical systems, the terminal is capable of accommodating numerous wide-body aircraft simultaneously, apart from standard jets and piston-engined planes.

The 31 scheduled carriers and 14 charter airlines operating through Hong Kong are currently moving in, ahead of the official opening by the Colonial Secretary, Sir Denys Roberts, on May 12. However, disputes over mooted handling charges, inevitably higher than rates applied previously, continue.

Air freight, incidentally, totalled well over 100,000 tonnes last year, while mail accounted for almost 5,000 tonnes. The charter operators, riding the crest of a five-year air freight bonanza, continued to attract a growing percentage of the business, particularly to Europe, but often demand exceeded aircraft supply and the scheduled carriers did quite nicely too.

Terminal

The new terminal is designed initially to handle 250,000 tonnes of cargo annually, with the capacity to increase this output to 450,000 tonnes, so Hong Kong's air cargo needs appear to be adequately catered for in the foreseeable future, assuming that the reopening of the Suez Canal keeps the astronomical air freight growth of recent years a little more in check.

Meanwhile, Kai Tak's passenger terminal is being completely overhauled and extended. New check-in islands, baggage systems, display boards, furniture, shops, airside restaurants, air bridges, car parks and a multitude of other changes are taking place, although not all will be finished this year. By 1977, however, Kai Tak is scheduled to process 5,000 passengers an hour compared with the present 2,200 an hour capacity, which is just as well, since the airport had a standard "busy rate" of 2,850 passengers an hour last year. In the process of the conversion, the passenger terminal's floor area is being increased by 70 per cent.

The improvements taken together will cost in the region of £50m. Government spending on airport civil works amounted to £7.95 in 1974-75. Another £12.3m. is earmarked for the current financial year, with a tentative £11.5m. expected to be laid out in 1976-77.

The question of building a second airport to meet future needs has been raised periodically, accompanied by diverse consultant's reports, but so far the physical limitations of Hong Kong's terrain and the enormous capital outlay required for such a project have had a dampening effect, although the concept remains alive.

Bruce Maxwell

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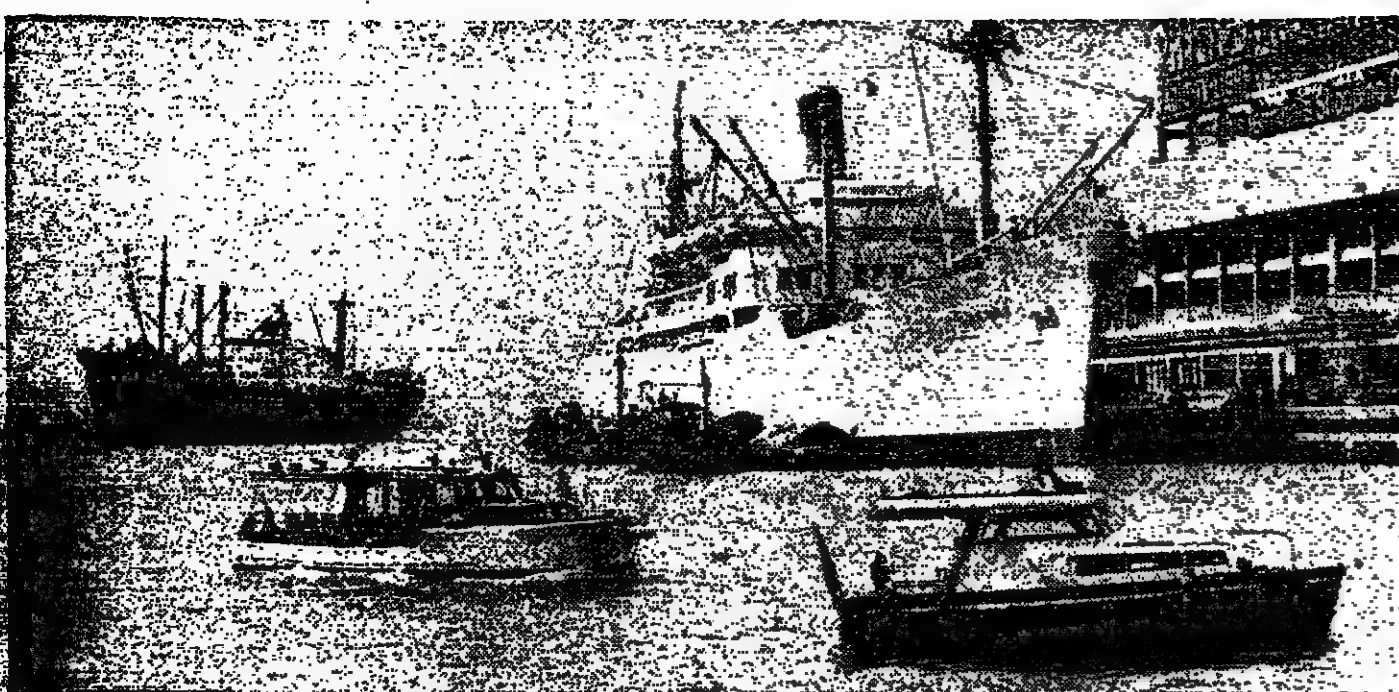
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HONG KONG XI



The harbour terminals are competing vigorously for uncommitted liner services.

Thanks to its relationship with Japan,
the shipping industry survived last year relatively unscathed.
Although there is concern about the Colony's freight handling capacity,
the outlook is optimistic and business is recovering.

Shipping

FOR SHIPOWNERS, for freight services to and from Hong Kong and for dock and associated services, 1976 shows signs of being greatly better than 1975, a year of predominant recession. Freight figures show that a recovery has already begun. Hong Kong's shipowners weathered 1975 better than most in the world and view the near future with optimism. Even the small shipbuilding industry is in good shape.

In brief, last year was a bad one for Hong Kong but only in the relative sense that there was lack of growth. The fears of some executives that the industry would actually decline proved unfounded. In point of fact, if one measured mid-1974 through the same point last year, business looked very bad indeed. What occurred was a very rapid recovery in the final quarter. So rapid was the surge that the month of December changed a 4 per cent drop in annual world trade (in value terms) to a mere 1 per cent drop.

In terms of actual freight carried, the decline for the year amounted to less than 0.2 per cent in quantity terms. In the final quarter the shipping industry boomed. As one executive put it: "There have never been volumes like that before." Imports by water were up 11.6 per cent, over the same 1975 period, while exports were up 17.5 per cent. In the first two months of 1976, export and import cargo together amounted to 3m. tons, 24 per cent up on the corresponding 1975 figure.

A year ago the freight situation looked far bleaker. In April 1975 shipping lines operating to North America were reporting cargoes of 40 per cent below the volumes carried a year before. In July of that year, there was apprehension over the possible closure of one of the three container terminals of Hong Kong following the failure of the Oyama Shipping Company of Japan, the majority owner.

But in January, in a step showing a large measure of confidence in Hong Kong's future, the container terminal was purchased for a reported HK\$175m. (US\$36m.) by a subsidiary of Hutchison International. This was the company which only the previous year had had to be bailed out of a situation approaching bankruptcy by Hong Kong's largest company, the Hongkong and Shanghai Bank. Obviously the bank felt there was a long-term need for cargo-handling facilities in the colony.

Capacity

The bank's confidence in the industry had to be over the long term. Despite the recovery, there are few shipping executives who do not believe Hong Kong has a considerable over capacity of freight handling facilities. The fifth container terminal of Hong Kong came into service in April at a cost of HK\$380m. It is also a subsidiary of Hutchison.

There is now stiff competition between the terminals for all uncommitted liner services. Nevertheless, Hong Kong's two largest conventional freight

handlers, Hong Kong and Whampoa Dock and Kowloon Wharf and Godown, showed increases in profits of four per cent and 16.5 per cent, respectively. It was Hong Kong Dock which purchased the former Oyama container terminal. Back in January, 1975, Kowloon Wharf had dismissed nearly 18 per cent of its workforce, citing the trend to container use as a reason.

A still unmeasured factor in Hong Kong's shipping is the raising of freight rates by the Far East Freight Conference by an average of 13.5 per cent, which came into effect in March. The rate rise was bitterly opposed by the Hong Kong Shipper's Council. A similar rate increase of perhaps 10 to 20 per cent is expected on the trans-Pacific run in September.

The increases are thought to increase the competitive attraction of the Soviet FESCO shipping line and the trans-Siberian rail link. Hong Kong is of two minds about this attractive service. It is eager to do anything to keep down rates—the cost of cotton polyester cloth shipped to England rose by 65 per cent from 1972 to 1975—but the Government of Hong Kong realises there are political problems in allowing a Soviet presence to grow. The interest of the Moscow Narodny Bank in purchasing a container terminal quickly wilted—more than probably after certain pressures had been brought to bear.

Hong Kong itself has only one important locally-owned shipping line serving the colony, the Orient Overseas Container Line

(OOCL) of shipping magnate C. Y. Tung. The line's 1975 profit rocketed by 150 per cent to HK\$133m. However, the profit was mainly due to the sale of a ship. Operating profits of HK\$54.6m. were virtually the same as 1974's.

But OOCL is looking with optimism on the year ahead motivated mainly by a recovery in consumer spending in the U.S. market. Container lines, the company's director pointed out, in the annual report, carry mainly consumer goods.

Surprisingly, Hong Kong's fame as a shipowning power has little to do with its own trade. The colony is not a flag of convenience, though shipowners would like it to have its own "registry" under the British flag—and to accept somewhat lower standards and pay lower salaries to crew members.

Operate

Nevertheless, Hong Kong owners operate an estimated 25m. to 30m. tons, mainly under Liberian flags, as one of the largest "fleets" of any community in the world. Shipowner Y. K. Pao, whose World-Wide Shipping Group owns 132 vessels with 28 more on order, is generally considered the largest shipowner in the world (though his companies have very large participation by the Hongkong and Shanghai Bank).

In a time of crisis for most shipowners in the world, Hong Kong has come through remarkably well. All of the public shipping companies showed an increase in profits in 1975. Wah Kwong, for example, had an increase of 40 per cent in profits to HK\$71m. and plans to buy seven new vessels at a cost of HK\$270m. Grand Marine showed a profit rise of 46 per cent to HK\$41.8m. and plans to buy four new dry cargo vessels from Japanese and British yards. OOCL has contracted with a French builder for two new container vessels. The Hong Kong and Shanghai Bank "benefited from a substantial increase in dividends on its shares in the private company World-Wide Shipping Group," the bank's annual report said.

With most of the world's shipowners suffering from vast over-capacity, and with more than 35m. tons of world shipping laid up, how has Hong Kong been able to do so well? The answer is an unusual ship-purchasing-chartering agreement which Hong Kong has been co-operating in with Japan for about 20 years. This, the "shikwaiken" chartering arrangement, is generally a more conservative procedure than of many European owners. Under the charter, a Hong Kong ship can be guaranteed a profit before it is even built.

It works this way. Japan is the world's largest trading nation and also the world's largest shipbuilding nation. Because of the vast amount of trade done, Japan's freight lines constantly need vessels, which they would like to purchase from Japanese yards. But this would cause a deficit in Japan's balance of trade. So the lines may order a vessel built to their own design, help a Hong Kong owner with the financing, and charter the vessel for a long term—eight years is thought to be about average.

About half of Hong Kong's shipping tonnage is now under these charters and much of the remainder—the vessels of Mr. Pao especially—are under long-term charters to oil companies. So despite the slump in shipping, most of Hong Kong's ships will be employed for the next few years. By that time, most of the ship owners of Hong Kong believe, there will be a world shipping recovery.

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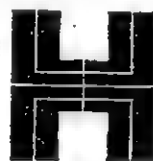
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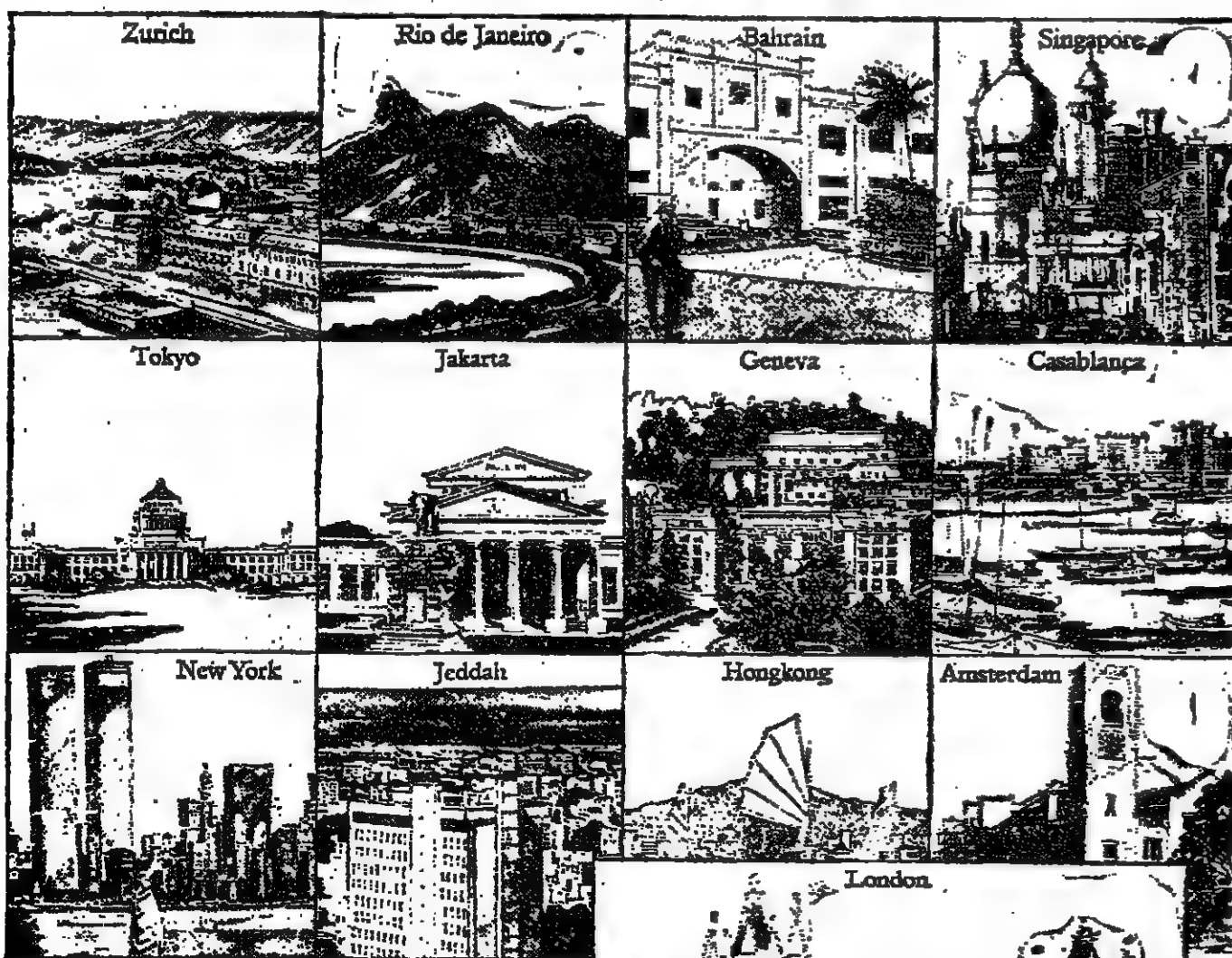
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The Tsz Wan Chan housing estate.

Slums and severe overcrowding are a long-standing blemish on the face of the Colony. Now, in a fresh drive against squalor, an ambitious Government programme aims at housing or rehousing 1.5m. of the population.

Housing

HOUSING IS probably Hong Kong's biggest human and social problem and therefore the one the Government has been trying hardest to solve. It will not be solved in any meaningful sense for at least another seven or eight years, but it could be claimed that a task which has defeated successive colonial administrations since the mid-1950s is now in the process of having its back broken. The aim, which dates roughly from the arrival of the present Governor, is to house or rehouse about 1.5m. people, roughly a third of the total Hong Kong population, in minimum decent conditions by 1985 and to do so on financial terms, which will not be an undue burden on the colony's economy.

There are three ingredients in the programme. The first is an allocation of over 10 per cent of the budget to the housing programme for the next six to seven years, and probably longer. The second is the mobilisation of private finance to help what the Government is doing, by for example what sounds like an imaginative scheme for building Government housing for sale under private mortgages. The third is the transfer from an old rent subsidy system to a new system of economic rents which means that Government housing is going to cost the people who live in it a lot more than in the past. It is a big programme with a total cost of more than \$HK6bn. over a ten-year period, and it has taken some knocks during the recession. But it seems to be gaining the support both of the people in the Government and business community who have to make the money available and, no less important, the people who have to pay the rents and live in the accommodation that is being provided.

The new standards to which the Government is building are 35 square feet per person in self-contained flats which include washing and toilet facilities, plus a wide range of facilities including restaurants, supermarkets, playgrounds and primary schools. The backbone of the programme consists of a series of huge estates, most of them housing some 45,000 to 50,000 people and usually representing a fairly self-contained community (except that the Government has followed a policy of locating secondary schools outside estates so as to induce some overlap and social contact between young people from different areas).

The estates may be impersonal in the eyes of horizontal-living westerners. But they are clean, humming with life and activity and as far as the outsider can see an outstanding success in planning or administrative terms.

Apart from the big estates there are two other programmes, one of which is already under way and a second

see that Hong Kong's hundreds of thousands of Government-housed families are happy with their lot. But it is necessary to put the rents in the context of other costs and prices. Tenants are not placed in a situation where more than 25 per cent of a family's income goes on rent and they can, if they like, stay at the \$HK18 a month rent level. Housing estate managers claim that more families in the old resettlement blocks have cars or motor-cycles these days, which seems to suggest that people have some choice in how they spend their money.

When the housing programme ends in the early '80s about 60 per cent of the entire population of Hong Kong will have become Government tenants, with the remainder either in the costly private sector or continuing the squatters' life in the New Territories. This will make the Hong Kong Housing Authority by far the biggest landlord in the world and probably one of the biggest and most valuable repositories of expertise on how to house huge numbers of people in decent conditions where density is high (in parts of Kowloon it is claimed to be the highest in the world). If the "high rise" society is something to which human beings basically cannot adapt then Hong Kong by the mid-80s will be one of the most unlivable communities in the world. But the indications seem to be that the Hong Kong version is going to work—if only because it is so much better than any of the available alternatives.

Rents

Apart from finding the money and designing the estates, the key to the success of the housing programme is probably the Housing Authority's rents policy. The rents of the original low standard Government resettlement blocks were fixed on the basis of economic returns which are now wildly out of date. Rents on new estates are designed to cover running costs and eventually recover capital costs and are thus very much higher. A ten-person flat in a new model estate lets at about \$HK340 per month compared with the \$HK18 rent on one of the old four-person resettlement block flats.

The gap is big enough to constitute a considerable problem for the public relations section in the Housing Authority which has to try to

Squatters

The background to the housing problem is one of grossly substandard living conditions and overcrowding on what may be the biggest scale in any major city in the world. Hong Kong has had a continuing floating squatter population of about 350,000 (some estimates put it higher) in the urban areas of the colony alone since refugees started flooding in from China in the mid-1950s. There are also squatters in the New Territories but they are generally considered to be living more tolerable lives. Squatters in urban areas may live in wooden shanties on steep hill-sides where they are liable to be swept to their deaths in typhoons or on the roofs of factory or tenement blocks in the built-up areas. In either case they may lack electricity and running water, or have access only to illegally tapped supplies which can be dangerous.

The 1.9m. people who live in existing Government housing or resettlement blocks are, of course, better off than the



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2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 2681, 2682, 2683, 2684, 2685, 2686, 2687, 2688, 2689, 2690, 2691, 2692, 2693, 2694, 2695, 2696, 2697, 2698, 2699, 2700, 2701, 2702, 2703, 2704, 2705, 2706, 2707, 2708, 2709, 2710, 2711, 2712, 2713, 2714, 2715, 2716, 2717, 2718, 2719, 2720, 2721, 2722, 2723, 2724, 2725, 2726, 2727, 2728, 2729, 2730, 2731, 2732, 2733, 2734, 2735, 2736, 2737, 2738, 2739, 2740, 2741, 2742, 2743, 2744, 2745, 2746, 2747, 2748, 2749, 2750, 2751, 2752, 2753, 2754, 2755, 2756, 2757, 2758, 2759, 2760, 2761, 2762, 2763, 2764, 2765, 2766, 2767, 2768, 2769, 2770, 2771, 2772, 2773, 2774, 2775, 2776, 2777, 2778, 2779, 2780, 2781, 2782, 2783, 2784, 2785, 2786, 2787, 2788, 2789, 2790, 2791, 2792, 2793, 2794, 2795, 2796, 2797, 2798, 2799, 2800, 2801, 2802, 2803, 2804, 2805, 2806, 2807, 2808, 2809, 2810, 2811, 2812, 2813, 2814, 2815, 2816, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2824, 2825, 2826, 2827, 2828, 2829, 2830, 2831, 2832, 2833, 2834, 2835, 2836, 2837, 2838, 2839, 2840, 2841, 2842, 2843, 2844, 2845, 2846, 2847, 2848, 2849, 2850, 2851, 2852, 2853, 2854, 2855, 2856, 2857, 2858, 2859, 2860, 2861, 2862, 2863, 2864, 2865, 2866, 2867, 2868, 2869, 2870, 2871, 2872, 2873, 2874, 2875, 2876, 2877, 2878, 2879, 2880, 2881, 2882, 2883, 2884, 2885, 2886, 2887, 2888, 2889, 2890, 2891, 2892, 2893, 2894, 2895, 2896, 2897, 2898, 2899, 2900, 2901, 2902

HONG KONG XV

The Colony's gold market is pre-eminent in Asia. Trading is highly speculative although dealings are harmonised with other international markets. But Hong Kong maintains a sturdy independence in its trading system.

Bullion

HONG KONG is one of the few Far Eastern business centres that has successfully developed a commodity trade in competition with Europe and the U.S. It has managed this feat so far in the case of just one commodity—gold. The Chinese Gold and Silver Exchange Society, which celebrated its 65th birthday last year, handles an estimated 300,000 ozs of gold on an average day's business. This makes it bigger than the combined gold markets of the U.S. and, more important, in terms of the money that changes hands, than the Colony's four stock exchanges put together.

Like most of Hong Kong's other markets the Gold and Silver exchange is highly speculative although its present chairman, Mr. Woo Hon Fai, who is head of the Colony's biggest bullion dealer, would like it to be less so. Hong Kong, however, is also the major clearing house for the physical gold which circulates in large quantities—though often illegally—around South East Asia and between Asia and the main international gold markets of London and Zurich rather more legally. When the population of South Vietnam was "de-hoarding" gold in the months before the fall of Saigon much of it passed through Hong Kong on its way to Europe or America. The flow is now in the reverse direction since for obvious reasons no more gold is leaving Vietnam while, in some other Asian countries, political uncertainties have stimulated a revival of hoarding. Asia has thus become a net gold importer from Europe, but either way Hong Kong gets the business, although there are other Asian financial centres, such as Singapore, which have been doing their best to get in on the act.

Hong Kong's pre-eminence in the Asian gold trade dates back quite a few years but it was powerfully reinforced, two daily settlements (at 11.30 each) years ago, when the Government, submitting to pressure from group themselves into

Contract

The trading contract in use by the Society is described as an "undated" or "opening" futures contract and is not gold importer from Europe, works roughly as follows. Any but either way Hong Kong gets the business, although there are other Asian financial centres, such as Singapore, which have been doing their best to get in on the act.

submitting to pressure from group themselves into

Although corruption in Hong Kong is not necessarily worse than elsewhere in Asia, police cases especially have received widespread publicity. The Government has tightened up the ordinances dealing with the problem.

Corruption

CORRUPTION IN Hong Kong, until two years ago was the Anti-Corruption Office of the Royal Hong Kong Police Force, a part of whose job consisted of investigating offences among the force's own members. But in the last couple of years there have been important changes in both the law and the institutional machinery. In 1971 Hong Kong introduced a new and very much more stringent Prevention of Bribery Ordinance which covers the acceptance of loans as well as gifts and which goes beyond British law by classifying "unexplained sources of wealth" as grounds for instituting corruption proceedings against public employees.

Investigating

Two years after the new bribery ordinance was adopted, and in the wake of the Godber scandal, the Government decided to move the "watchdog" function out of police headquarters. The result of this decision was the establishment in 1974 of the Independent Commission Against Corruption as an agency for receiving and investigating corruption complaints (but not for prosecuting suspects) and supervising the Hong Kong police force who are public to a greater awareness of the problem. The ICAC reports directly to the Governor, while the Government was preparing to prosecute him for bribe taking. The Godber case whose activities (which ended over a year ago) obstructed from within the (extrajudicial and conviction) police force itself. During its mission has stirred up its fair share of public controversy. Complaints about its activities—some of them possibly inspired by vulnerable sectors of the community—have included allegations of "police state" methods of questioning and a too generous interpretation of the Commission's terms of reference.

Control of corruption in Hong Kong before the recent outbreak of official concern was based on a 1948 ordinance which made it a criminal offence for a Government employee to accept a gift as an inducement or reward for doing his job but did not outlaw the taking of loans. The corruption "watch" seem to relate to rather minor "dog" from the post-war period points such as the ICAC's public works, the ICAC says

admittedly unpopular habit of descending on suspects' homes to interrogate them at 6.30 in the morning, or the references which his director has made to holding businessmen or officials "accountable" for corrupt practices by their juniors. The true picture would seem to be that the ICAC is still getting into its stride, but is doing its job quite well with the resources available and is beginning to get results. The Commission has relied largely on information brought to it by the public up to now, though there is talk of "going on the offensive" to investigate corrupt practices in sectors where public information is not readily available. Its records show that it has received around 15,000 complaints during its two years and two months in operation, of which about half turned out to have something to do with corruption. The number of anonymous complaints, which for obvious reasons are hard to pursue, originally constituted about two thirds of the total but have now fallen to slightly over 50 per cent, thanks to a publicity campaign waged by the Commission to "report corruption in person."

Almost exactly half the corruption allegations so far reported to the ICAC have concerned the police, with the rest spread among a dozen or so other Government departments and the private sector. But the ICAC itself (which still has a number of police investigators on its staff) is reluctant to accept the conclusion that the police are overwhelmingly the most guilty arm of Government. Police corruption cases tend to come to public notice more than those in other Government departments. The Commission says, because the police are in continual contact with the general public. Elsewhere, and particularly in sections of the Government concerned with the public.

Achievement

The ICAC's main achievement to date is probably psychological rather than concrete. No really spectacular instances of corruption have been unearthed by its investigators, although there has been a steady stream of convictions on medium-sized charges. The Godber case—the biggest of its kind so far—antedated the ICAC's formation and no new charges of a similar scale have been brought against police officers in the past two years. However, the ICAC can probably justly claim that corruption in Hong Kong has become less rampant and that the public has been convinced that the Government means business. The next stage will be to tackle the large-scale organised corruption that undoubtedly exists in the colony but which is unlikely to be reported by the public.

C.S.

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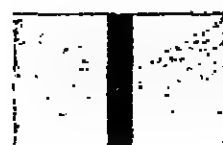
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54-55



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The tourist industry has seen little growth in recent years, compared with the earlier bonanza, but it remains the Colony's second largest source of foreign earnings. Indications are that a lower profile will be accepted.

HONG KONG has managed to stay at the top of the pile in the bitterly competitive Far Eastern tourist business. But the men who oversee this second largest "industry" in the Colony (in terms of foreign exchange earnings tourism ranks ahead of electronics) are obviously feeling a good deal less pleased with the results of their efforts to lure foreign visitors than they were a year or two ago.

The number of tourists rose by almost 10 per cent a year on average between 1968 and 1972, when it passed the million mark. In 1973 there was a huge leap from just under 1.1m. visitors to nearly 1.3m. caused in part by the fact that Hong Kong was becoming a favourite destination for the wealthy

Japanese tourists of pre-oil crisis days. From then on, however, the industry ground to a virtual halt with a 0.3 per cent rise in visitor arrivals in 1974 and a 0.4 per cent rise in 1975.

Hong Kong was overtaken by Singapore last year in terms of visitor arrivals because the number of people going to Singapore during the year shot up by 90,000 against the Hong Kong increase of a mere 5,000. Tourists are still staying longer in Hong Kong, however, and almost certainly spending more money there than they are doing in Singapore. (Full 1975 figures are not yet available but in 1974 Hong Kong's tourist earnings were \$478m. against Singapore's \$270m.) The colony can therefore claim to be staying ahead of its rivals unless one includes Hawaii, which is a bigger tourist destination earning more money from the same markets as Hong Kong but not generally considered to be part of Asia.

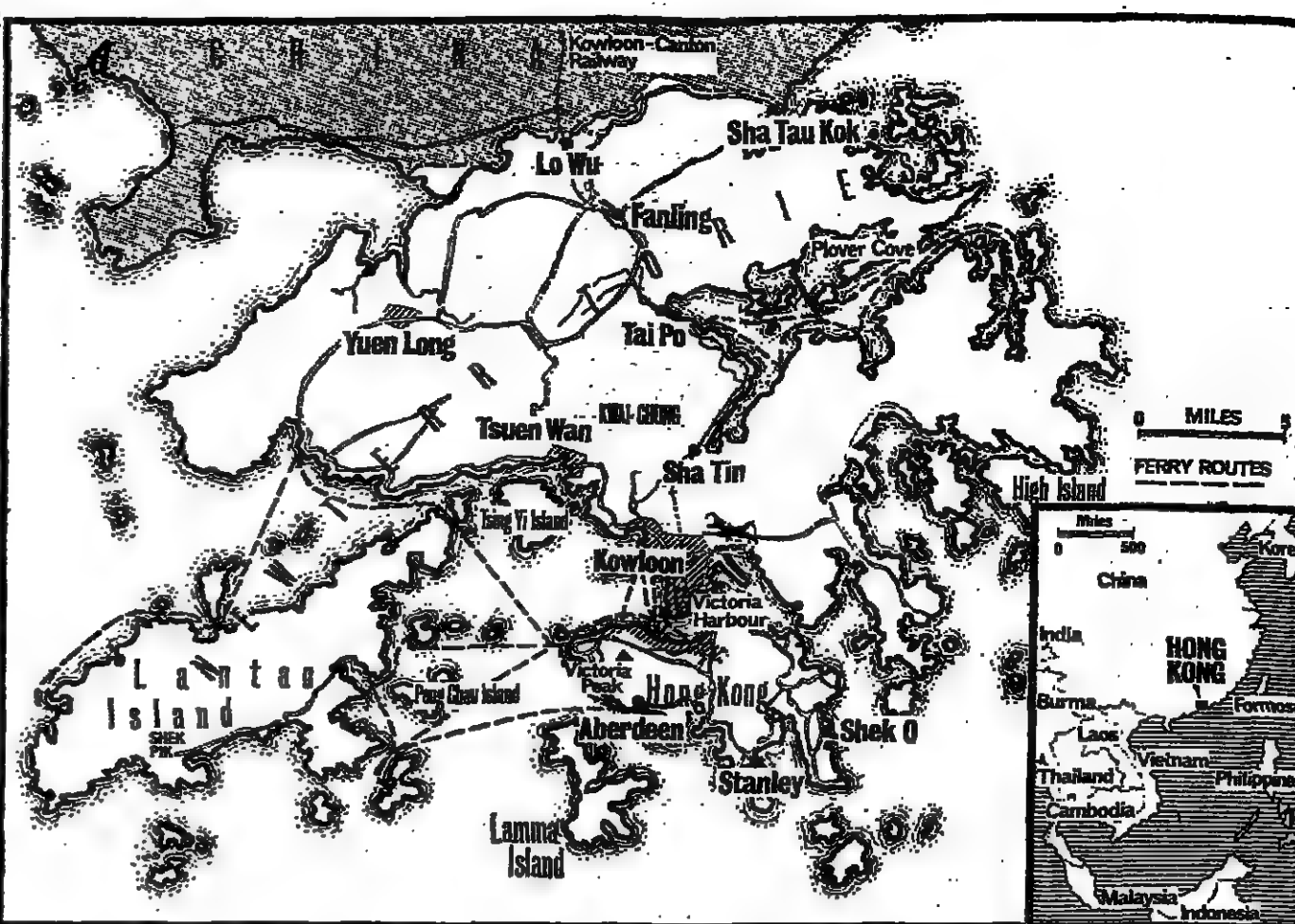
The reasons why people come to Hong Kong could be put under three main headings, although the list does not have the official endorsement of the Hong Kong Tourist Association. First, the Colony is a focal point on Far Eastern airline routes, particularly for Americans making Asian or round-the-world tours. Secondly, Hong Kong represents China to the Westerner but can conversely, be ingeniously presented to the oriental visitor as being a little bit of Europe in Asia. Finally, Hong Kong has an enviable and (despite rising prices) well justified image as a shopper's paradise.

The Colony is the place to buy Chinese handicrafts and other artefacts, for those who cannot go to the People's Republic itself. It remains one of the custom-tailoring centres of the Far East (though a few complaints have been registered recently in this area). It is a major centre for gold and jewellery, which is an ever popular purchase by visitors from neighbouring countries who do not trust their local currencies (22 per cent of retail sales to tourists are in the jewellery category).

Last, but by no means least, Hong Kong imports duty-free, or at low duties, consumer goods from other countries and sells them at a handsome profit, but still at quite reasonable prices to the throngs of tourists. About two-thirds of tourist spending in the Colony is accounted for, by shopping, whereas in most other Asian tourist centres the main share of the tourist dollars is taken by restaurants and hotels.

Spread

The Hong Kong Tourist Association, though grateful for the shopper's paradise image, would like to spread the emphasis somewhat by directing visitors' attention to cultural assets such as the opportunity the Colony affords of observing traditional Chinese life-styles or even by getting more people out into the country. Hong Kong's remoter areas, such as the mountainous island of Lantau (twice as big as Hong Kong island itself) or the more out-of-the-way parts of the New Territories, are extremely beautiful and, for the time being, relatively



tively empty of visitors or anyone else.

The Tourist Association is building two new resorts in Lantau and is planning to start on adventure-style hotels aimed at young people in the New Territories. A snag about this kind of development, however, could be that the people who come to Hong Kong are not necessarily looking for the kinds of facilities the Tourist Association would like to offer them. Sixty-five per cent of all visitors (or 75 per cent in the case of the Japanese contingent) are men which would tend to suggest that Hong Kong is not seen at present as a place for family holidays or couples (Japanese honeymooners, for example, would certainly prefer Hawaii).

Patient propaganda will no doubt be conducted to pull in more holiday-type visitors as well as to get people to extend the total length of their stay in the Colony (at present 4.6 days per person, but only 2.6 days for Japanese visitors). This, however, is clearly going to take time and in the short term the Tourist Association seems to be cutting back on promotional efforts. Plans to open tourist offices in Singapore, Osaka and Italy were scrapped last year. Existing offices were closed down in Canada and Switzerland because of a lack of resources caused by the recession.

The emphasis on shopping means that tourism in Hong Kong has a high rate of labour productivity needing only 15 workers to generate earnings of HK\$1m. per year, against the textile industry's man-earnings ratio of 58 workers to \$HK1m. It also means that a lot of what is spent in the shops by visitors goes out of the country to buy more consumer goods. Figures published by the Tourist Association indicating that tourist earnings have in some years almost balanced the visible trade deficit are thus slightly misleading, since the tourist industry can itself be considered as a substantial contributor to the visible trade deficit.

But there is another aspect to the shopping question which sounds surprising but seems to make a case for the industry. The Tourist Association says that the value-added element in tourist sales through the colony's shops is over 50 per cent, whereas the value-added element in textile exports is only 34 per cent. Analysts explain the difference by pointing out that Hong Kong shopkeepers and wholesalers give themselves a handsome mark-up, whereas textile manufacturers (whose raw materials are also imported) work on profit margins pared to the bone.

Despite its success as a tourist centre Hong Kong acknowledges that it has certain image problems. The Tourist Association in its latest annual report expresses concern about the increase of petty crime in "certain well-defined tourism areas," by which it probably means the Wan Chai night life area on Hong Kong island and the shopping and entertainment districts around Nathan Road in Kowloon. There is also concern about "unethical business practices."

Eroded

The Japanese, who form the biggest group of tourists, but not necessarily the most popular with local people, seem to have been getting a particularly rough deal recently. This is indicated by the Association's comment that "mishandling" of visitors and "reports of malpractices" have eroded the colony's good image in Japan. These problems are associated with the rising crime rate which has been a problem not just for the tourist industry but generally. The problem, however, needs to be seen in proportion. Hong Kong is still by world standards a safe city and it still offers some of the best shoppers' bargains and some of the most picturesque sights on the Asian tourist beat.

C.S.

Tourism



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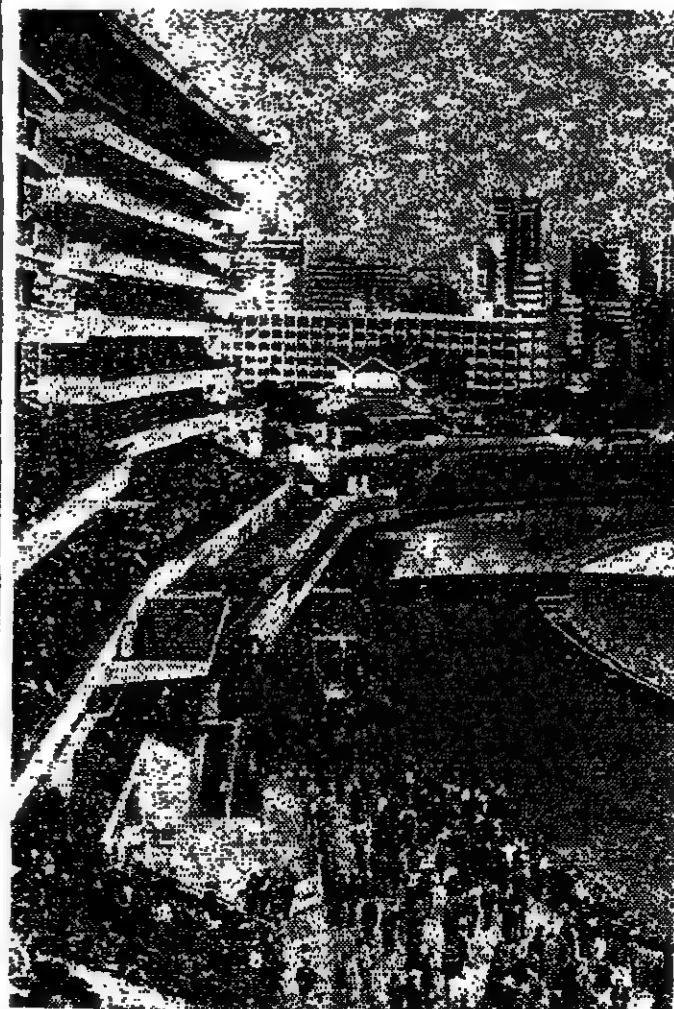
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COMPANY NEWS + COMMENT

Fluidrive forecasts substantial advance

GROUP PRE-TAX profit in excess of £722,000 for the year to September 30, 1976, compared with £381,000 for the previous year, is forecast by Fluidrive Engineering Company.

On a turnover up from £2,328,000 to £3,116,000, first half profit advanced from £233,000 to £261,000, and the directors say they expect that figure will be exceeded in the second half.

Stated earnings per 20p share in the first half increased from 2.2p to 3.1p, and the interim dividend is stepped up from 0.75p to 0.875p net. Last year's net total was £478p paid from earnings of 3.5p.

INDEX TO COMPANY HIGHLIGHTS					
Company	Page	Col.	Company	Page	Col.
Abbott's Packaging	28	8	Price & Pierce	32	4
Allied Polymer	28	6	Rush & Tompkins	28	2
Berry Wiggins	28	3	S. & P. Ebor	28	6
Chalmers (E.)	28	5	Sanderson Kayser	32	3
Clarke Chapman	28	7	Scottish European	32	5
Elbar	28	5	Utd. Carriers	28	4
Fluidrive Eng	28	1	W. Bromwich Spring	32	5
Guthrie Canada	28	6	Weyburn Eng.	28	8

Rush & Tompkins hopeful

SOME OPTIMISM about prospects is expressed by Mr. D. Palmer, chairman of Rush & Tompkins Group, provided the country makes steady progress towards its economic goals.

The climate for property development is likely to be poor for some time ahead but there are opportunities that arise because of special circumstances he says.

Meanwhile the existing portfolio is looked in for growth and net rents receivable in 1976 are likely to show a further increase of 20 per cent, on 1975.

Mr. Palmer explains that it is taking a long time to re-establish the group's construction business overseas but it is hoped this side will start making a contribution to net revenue in the "not too distant future".

As known, revenue before tax for 1975 was £673,581 (£641,693) and the dividend is 2.38p (2.15p) net per 25p share.

An analysis of gross trading revenue - £2.0m. (£1.9m.) shows: property investment £0.8m. (£0.9m.); residential development £0.3m. (£0.3m.); contracting £0.8m. (£0.7m.).

A directors' valuation of completed investment properties and those occupied by the group as at December 31, 1975, has been reviewed by the company's independent professional surveyors who have confirmed that in their opinion the current market value is not less

than £19.5m. which, with properties included at cost £12.2m. gives a total included in the accounts of £31.7m. It is the intention to instruct the independent surveyors to carry out a full inspection and valuation before December 31, 1977.

After taking into account the property valuation but ignoring any surplus over book value of the other assets, net asset value per share is shown at 170p (140p) before capital gains tax and 130p after allowing the maximum estimated liability for that tax in the event that all the portfolio was sold.

Meeting, Marlborough House, Sidcup on June 11, at 2.30 p.m.

Chairman's statement Page 32

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and it would therefore be only a minor partner in a joint venture.

In bitumen it is already in a joint venture with BP Oil which has an option to buy the company out and there is a "reasonable possibility that they will do so," says Mr. Bristol.

As known, group turnover for 1975 was £11.78m. (£10.91m.), pre-tax profit £1.66m. (£1.36m.), and the dividend 1.92p (same) net per 25p share with the final of 1.22p on increased capital.

An analysis (in percentages) of turnover and profit shows: drilling contracting, 17.5 and 54; refining and storage, 3.3 and 6.3.

The major contributor to earnings was KCA Drilling Oil Base also contributed, mainly from the German company, which is expanding rapidly in the Middle East. Oil Base is only just finding its feet, but with projected contracts in view, it should expand during the next two years.

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year, and the dividend is 1.9835p (1.722p) net.

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INTERNATIONAL COMPANY NEWS & EURO MARKETS

EUROBONDS

DM sector firms

BY MARY CAMPBELL

WITH THE U.S. bond market continuing weaker and Euro-dollar interest rates markedly up (one-year rates are above 7 per cent for the first time since early January), prices in the U.S. dollar sector of the Eurobond secondary market were off perhaps half a point last week. Canadian dollars, however, were firm while the D-Mark sector showed some signs of recovery.

Any weakness in the secondary market has not as yet fed through to the primary market in Europe. Although some issues were priced last week saw sharp falls in the after-market, this appears to have been attributable to special factors and new issues continued to be announced in substantial volumes.

Worst hit last week was Montreal Urban which was quoted on Friday at 97½ after a 99½ per cent pricing. Allotments were reportedly a hundred per cent. Quebec Urban's Can\$15m, seven-year issue might also have hoped for a better reception: it was priced at 98½ on a 99½ per cent coupon, but was quoted at 97½ on Friday.

New issues announced last week included Can\$35m for seven years for General Motors Acceptance of Canada via Morgan Stanley International, indicated coupon 9½ per cent; Can\$30m for five years for Roy-Clare via Wood Gundy, indicated coupon 9½ per cent; Can\$20m for five years for Walter E. Heller of Canada via Orion, indicated coupon 9½ per cent; and, to be launched to-day, U.S.\$30m for six years for Gulf and Western International via Kidder Peabody, indicated coupon 9½ per cent.

Indices

NEW YORK—DOW JONES

	1976							Since completed			
	May 14	May 13	May 12	May 11	May 10	May 9	May 8	High	Low	Since	Low
Industrials	988.06	1061.10	1008.07	1008.91	1007.48	998.32	1,011.02	988.71	1061.70	1,122	976.88
Home Bonds	73.84	73.93	73.46	73.87	73.97	73.76	72.44	72.11	74.18	67	67/328
Transport	91.84	91.14	899.58	930.81	919.58	914.18	92.44	92.11	93.18	18	93/328
Utilities	77.96	77.84	77.87	77.48	77.58	77.18	77.11	77.11	77.18	18	77/328
Oil & Gas	81.84	81.14	809.58	930.81	919.58	914.18	82.44	82.11	83.18	18	83/328
Oil & Gas	81.84	81.14	809.58	930.81	919.58	914.18	82.44	82.11	83.18	18	83/328
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Oil & Gas	81.84	81.14	809.58	930.81	919.58	914.18	82.44	82.11	83.18	18	83/328
Oil & Gas	81.84	81.14	809.58								

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- Recent Issues " and " Rights " Page 29

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FINANCIAL TIMES

Monday May 17 1976

GF The
GEORGE FISCHER GROUP
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iron and plastic,
cutting and screwing
tools. Malleable iron casting.
LONDON-BEDFORD-HUNTINGDON

Provos are retaliating against police—Rees

BY OUR BELFAST CORRESPONDENT

AFTER ULSTER's most violent week-end for many months, in which nine people died, Mr. Merlyn Rees, the Ulster Secretary, said that the murder of four policemen in the Provisional IRA's deliberate campaign launched by the Provisional IRA because of increasing successes by the Royal Ulster Constabulary.

Police believe that the deaths of five civilians were a direct retaliation by Protestant killer gangs for the Provo attack at Belcoo on the Fermanagh border, where three police officers died in a booby trap explosion.

Even before this incident, the Republican News, the mouthpiece of the Provos in Ulster, warned that a "long hot summer" had begun for the RUC because of the Government's policy of gradually replacing the Army in some areas by RUC men, backed up by the military police.

The paper said: "Rural guerrilla activities by the IRA against RUC outposts have been intensified in step with the campaign in Belfast."

Only hours after its publication, a sergeant and two constables died in the booby trap explosion which was taking an earlier shooting attack on the Belcoo police station.

The fourth policeman, a sergeant, was watching a

Bomb deaths

The deaths of the policemen, all within a 12-hour period, constituted about the worst day for the RUC since the troubles began. But the force's new Chief Constable, Mr. Kenneth Newman, said his men would not be deterred from carrying out their duties.

Retaliation, apparently by members of Protestant paramilitary organisations, began in Belfast when a bomb was thrown into a public house where customers were watching a

soccer match on television. The explosion killed two Roman Catholics and injured 26 others, including two children.

Three more Catholics died when a bomb exploded without warning in a bar in Charlemount, Co. Armagh. The bombers machine-gunned the other public house in the village, wounding another three people.

Mr. Liam Cosgrave, the Irish Prime Minister, has reaffirmed his Government's pledge to work towards a "unity by consent" solution to the Northern Ireland crisis.

Speaking at his Fine Gael party's annual conference in Galway at the week-end, Mr. Cosgrave said of Ulster: "The suffering of its people is our common grief—and it is our common duty."

In the Irish Republic, Dr. Garret FitzGerald, the Republic's Foreign Affairs Minister, told the conference yesterday that there was no political motivation behind the decision to prosecute eight members of the British Army's Special Air Service, who were arrested after crossing the border into the Republic.

The decision to prosecute, he said, was taken by the Director of Prosecutions, who was completely independent of the Government.

Grimond fights to restore party confidence

BY PHILIP RAWSTORNE

MR. JOE GRIMOND, the Liberal Party's new leader, will begin his two-month effort this week to restore the confidence of the party and revive its fading role as a reformist force on the political Left.

He intends to initiate a full review of the party's programme and strategy at a meeting of Liberal MPs on Wednesday.

Mr. Grimond is expected to widen the Westminster talks later in the week into a more general party debate on its future role.

The Liberal Party executive is to meet in Oxford on Friday. The party's council, representing all sectors of the movement, will hold on Saturday its first meeting since Mr. Jeremy Thorpe's resignation.

Mr. Grimond's attempt to stimulate another Liberal advance may be confused by the accompanying campaign for the leadership succession.

Two of the probable contenders, Mr. Evelyn Hooper and Mr. Russell Johnston, yesterday outlined their ideas on the party's course.

Mr. Hooper said on ITV's "Week-end World" programme that the Liberals needed to be "radical in particular, instead of vaguely radical in general."

Specific policies had to be set out for dealing with the country's economic problems, encouraging enterprise and reducing unemployment, he declared. And clear

social priorities had to be established so that "a thorough job" could be done by concentrating on a few issues.

Mr. Johnston said that the Liberals should hold to the "common attitudes, outlook, beliefs, ideals and hopes" that distinguished them from the "vested interests" of both Labour and Conservatives.

The party had to "establish itself without becoming an establishment," to "show that it is possible to govern in a new, open, fairer, less bureaucratic, more responsive way."

Mr. Johnston, who said that he would stand for the leadership if a substantial number of party members asked him, said in a BBC radio interview that the Liberals should be "a radical Centrist" party.

Steel stays home

Mr. David Steel, the former Liberal Chief Whip, who with Mr. John Pardoe is expected to join the leadership race, warned Liberals at the week-end that he would not be prepared to move his home to London from his Roxborough constituency.

This would be a disadvantage for a party leader, he said, and was one of the practical considerations he would have to weigh before finally deciding whether to contest the election, whose rules will be decided by the special party assembly next month.

S.African diplomat's expulsion sought

FINANCIAL TIMES REPORTER

LABOUR MPs to-day will press for the expulsion of a South African diplomat alleged to have been involved in an attempt to discredit an unnamed British politician.

Mr. Frank Hooley, Labour MP for Sheffield, Heeley, plans to submit an emergency question in the Commons to Mr. Anthony Crosland, Foreign Secretary, about the activities of Mr. J. L. Russell Johnston, a second secretary at the South African embassy.

Mr. Hooley said he would also demand a formal protest to the South African government.

The Guardian reported on Saturday that Mr. Russell had tried to obtain a copy of a photographic film allegedly involving a leading politician.

Though there was no substantial evidence that the film existed, the newspaper said that a youth who claimed to have obtained the film was asked by the embassy official to obtain a copy.

The Home Office said at the week-end that the contents of a letter from the Guardian about the affair were "being looked at."

British authorities are taking

renewed interest in the activities of Rhodesian recruiters of U.K. mercenaries for the hard-pressed Rhodesian armed services. There have been signs recently that direct approaches are being made to servicemen in Britain.

British laws against recruiting mercenaries for Rhodesia can be enforced only if the recruitment takes place in the U.K. Most attempts so far have been in the form of tempting offers in letters posted from Rhodesia.

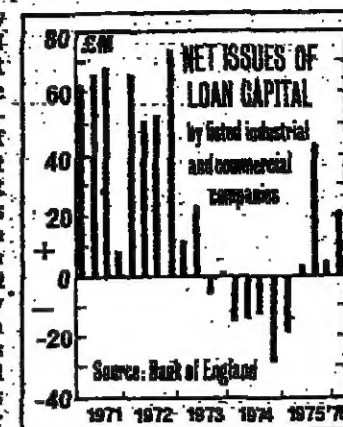
Last night the Foreign Office said that material gathered was sent to the Director of Public Prosecutions for consideration.

Mr. Gwyn Roberts, Labour MP for Cannock, said that it was "incredible that apparently nothing is being done by the Army or anybody else to stop what seems to be blatant poaching of our soldiers for duties which, we are told, might even be treasonable."

He is tabling Commons questions to Mr. Roy Mason, Defence Secretary, asking what evidence there is to indicate that British soldiers are buying themselves out of the Army to emigrate to Rhodesia to join up there. He will ask Mr. Crosland to investi-

THE LEX COLUMN

Debt goes out of fashion



not advanced very far towards the £100m target mentioned in January last year, with much more than £100m in this stage — although there may be coming back to the market itself for money within the next nine months.

Demand may recover somewhat with the upturn in the economic cycle over the next year. But it is still far from clear that companies in general will be keen to take a debt-financed route to expansion whether via the banks or a stock market. Long-term interest rates would probably have to come down to the 10-11 per cent level before companies would seriously be interested in issuing new long-term loan stock. And at the stage the attitude of the lending institutions would be tested.

previously has had to pay a composition fee to the Inland Revenue to compensate for the stamp-free status of its 13 per cent loan 1981 in the market. This amounted to 30p per £100 per annum of maturity, an annual £1.55m, not allowable for tax. This has effectively put up the gross cost of its borrowing by 1.1 points, a burden which has now been removed.

The second Budget move was the announcement of talks between the Bank of England and the clearing banks to facilitate the expansion of medium-term bank lending to industry. Total term commitments may now be approaching £3bn. (though under half of this may actually have been advanced), and Barclays with £400m of medium-term lending in the U.K. at the end of 1975, has said that manufacturing industry is taking a quarter of its borrowings in this form.

There is scope for the total to grow further, but there is a limit to the extent of mismatching of lenders and depositors which the clearing banks can bear, and the aim is to secure rediscounting facilities at the Bank which would reduce the liquidity risk (though not the credit risk).

Export and shipbuilding loans are already refinanced at the Bank according to a formula which relates to the level of the clearing banks' current account balances. But the money supply implications of the clearing banks being able to offload further large commitments on the Bank of England at times of tight credit are formidable.

For the moment, demand for credit remains low. The medium-term totals reported by the clearing banks partly reflect companies suffering when switching from hard-core over-looked over the precipitous Finance for Industry, which

will be aware that 1977 threaten to be a year when crowding out could put great pressure on interest rates. Moreover, he is not confident that tax will be fully available against interest outgoings given the extent of other allowance against fixed investment as stock appreciation.

When equity finance is available, few want to take on the risks of gearing. It does not make much sense in terms of current cost basis (far too high) to have been paid for Sandilands-type balance sheet gearing is likely to fall no less of tight credit are formidable.

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Vacuum Generators shows interest in AEI subsidiary

BY MARGARET REID

A RIVAL suitor for part of the loss-making AEI Scientific Apparatus subsidiary of GEC, 500 people and has premises near Manchester and in Sussex. About half its business is in the production of mass spectrometers, also one of AEI Scientific's specialities. Both also make vacuum products and surface physics instruments.

On the other hand, AEI Scientific's microscope output has more affinity with Cambridge Instrument, Britain's largest producer of electron-microscopes.

Vacuum Generators, which is expected to make pre-tax profits of about £1m this year, was in 1972 considering a flotation to bring its shares to market, but this plan was shelved in the adverse climate prevailing from 1973.

The company was formed in the 1960s by two former employees of Mullard Radio, Mr. Bernard Eastwell, a physicist who is now chairman of Vacuum, and Mr. Vic Treasure, an engineer who is an executive director. Mr.

Douglas Latham is managing director. Cambridge Instrument formed last year with £4.5m of Government backing by the merger of the profitable private Metals Research concern with the loss-making Scientific and Medical Instruments—itsself earlier hived off, with Government aid, from George King—now being much reorganised and streamlined, bringing hopes of an improved trading performance.

It has been widely regarded as the possible nucleus of an amalgamated British scientific instruments group. It has long been expected that it would, in time, absorb AEI Scientific.

Earlier this month, Mr. David Cole, joint chairman and chief executive of Cambridge Instrument, said: "A proposal has been discussed in principle between us and GEC, and a measure of agreement has been reached."

The National Enterprise Board said that a proposal for the merger, with State support, was being prepared for submission to itself and the Department of Industry.

FORD'S WHISTLE-STOP TOUR

A faltering campaign

BY DAVID BELL

THE STATION MASTER at Flint, Michigan—one train a day, each way—has a Ph.D. in psychology, a fact which he lost no time in telling to the hordes of reporters who descended on his station yesterday to catch Mr. President Ford's campaign train.

He cut a slightly unlikely figure in the midst of all the preparations for the departure of the Presidential express, hired for the day at a reputed cost of \$100,000.

Overhead was a helicopter. A special squad of State police—some armed with machine guns—guarded each coach and every level crossing and bridge along the way. Secret Service agents, wearing half-beatified to look as if they were not Secret Service agents, were everywhere.

The day in the train was Mr. Ford's last attempt to whip up support for the political battle of his life on Tuesday. After five recent primary defeats at the hands of Mr. Ronald Reagan,

the President cannot afford to lose his home State.

But there is no doubt that his staff now really fear a disaster in Michigan and if he should lose the State, even win by only a narrow margin—his campaign for re-election could be mortally wounded. The whole day yesterday served to underline the reasons why his campaign has run into such trouble.

To begin with, Mr. Ford is a leading campaigner. He does not, as seasoned observers put it, know how to "work" a crowd. Yesterday there was a plaintiff note in every speech, as if he were almost begging for support.

At most of the mock-Gothic stations along the way the applause was polite as he introduced the First Lady, praised his then achievement since taking office and told the crowd: "Gerry Ford will not let you down."

But somehow, one middle-aged lady said, it was not quite what

DETROIT, May 16.

she had expected from the President.

Then there was the issue that he chose to stress at every stop. The economy, he said, is on the mend. Inflation is down, the future is bright. But it does not seem quite so rosy in Michigan, where unemployment is still almost twice the national average and where the recession has bitten deeper than almost anywhere else in the country.

Jobs are the key issue here. The Flint stationmaster, himself a victim of the recession, was not the only person present to remark that this was not enough.

The issue flared in an encounter with a heckler who may yet return to haunt the President. At Battle Creek, home of Kellogg Corn Flakes, a young man shouted: "You blew it" in the middle of Mr. Ford's recitation of his list of achievements.

Red faced and clearly very angry, Mr. Ford replied: "We blew it in the right direction," and then unwisely added: "And if you would go out and look for a job, you would get on."

For all the public optimism of White House aides as the train meandered through the small towns of central Michigan, it was hard to escape the impression of a President on the defensive not at all sure how he has been outmanoeuvred by Ronald Reagan and very confused about how to regain the upper hand.

Even here, after 25 years as a Congressman, Mr. Ford seems not to know where to hit. If he ignores them, he is tried to yesterday, he risks leaving Reagan to win his case by default and as a non-elected President, he has no reservoir of former support on which to draw.

Mr. Ford chose to use a train whistle-stop campaign of President Truman, also an unelected President who came from behind to win in 1948. But, according to one reporter who covered that Truman trip in 1948, the echo is a very faint one and Mr. Ford has none of the late President's capacity to fire a crowd.

Statement expected from Bates soon

BY TERRY WILKINSON

EDWARD BATES AND SONS (Holdings), an Arab-backed merchant bank, is expected to make a statement in the next few days clarifying the events which led to the suspension of the company's share quotation last Thursday.

The move comes after a series of urgent talks with the Bank of England and other interested parties.

It seems likely that a focal point of recent discussions has been the need to change the company's capital structure. Such a reorganisation would be necessary, of course, if the company wanted to secure an immediate injection of new money by way of a rights issue. At their suspension price of 20p on Thursday morning, the company's shares are below par value and a rights issue cannot be made in these circumstances.

Arab interests hold 25 per cent of the equity of Edward Bates, with an option on a further 15 per cent.

In reporting a net loss of £15.2m for the year to March 31, 1975, the group made an exceptional provision of £3.2m against property loans and investments.

The company's auditors, Deloitte and Co., were unable to express an opinion.

Of total loans of £32m made by the banking subsidiary at that date, about £15.5m were secured on property. The remainder were largely made to shipping interests, including those of Milos Colocotronis.

It was suggested by the company last week that some shipping loans would have to be syndicated, but there was also concern that the security for certain property loans had fallen below acceptable levels.

Press reports that a property site owned by Raglan Property on which Bates had lent £3.5m was now only worth £1m, drew a denial from Mr. Richard Thirby, chairman of Raglan Property, whose auditors are also Deloitte and Co.

Continued from Page 1

Devolution threat

White Paper or which goes further than their White Paper. At the same time, she said, it remained Conservative policy that there should be a directly elected Assembly in Scotland.

"But let me make this crystal clear. I could not support an assembly—none of us could support an assembly—if we thought it was likely to jeopardise the Union. We believe that the Union is more likely to be harmed by doing nothing than by responding to the wish of the Scottish people for less government from Westminster."

"We, who are the Unionist as well as the Conservative Party, will stand fast in defence of a

Union which has endured so much and achieved so much, not only in these islands but throughout the world. I believe that the overwhelming majority of the people of Scotland share this view."

"But we must not imagine that the establishment of an assembly will by itself solve Scotland's problems. The machinery by which we are governed is of less consequence than the purpose of those who are elected to govern. Any machine can be used well or ill. It can be designed with an honourable or malevolent intent. It can be used to preserve or to destroy freedom."

Weather

U.K. TO-DAY
SHOWERS at first, but becoming dry and brighter.
London, S.E. and E. England, E. Anglia, Channel Is.
Dry, cloudy with sunny intervals. Winds S. Max. 16C (61F).
S.W. England, Midlands, S. Wales, Cloudy, occasional rain, becoming brighter and dry. Winds S. Max. 16C (61F).
N. Wales, N. England, Lakes, 10-11C (50-52F).

BUSINESS CENTRES

	Y day	Mid-day	Y day	Mid-day
Alexandria	24	25	24	25
Amsterdam	24	25	24	25
Antwerp	24	25	24	25
Batavia	24	25	24	25
Bombay	24	25	24	25
Buenos Aires	24	25	24	25
Calcutta	24	25	24	25
Canton	24	25	24	25
Cebu	24	25	24	25
Colon	24	25	24	25
Hankow	24	25	24	25
Harbin	24	25	24	25
Hong Kong	24	25	24	25
Kobe	24	25	24	25
London	24	25	24	25
Lyons	24	25	24	25
Manila	24	25	24	25
Medan	24	25	24	25
Osaka	24	25	24	25
Panama	24	25	24	25
Perth	24	25	24	25
Rangoon	24	25	24	25
San Francisco	24	25	24	25
Singapore	24	25	24	25
Sourabaya	24	25	24	25
Tientsin	24	25	24	25
Yokohama	24	25	24	25

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